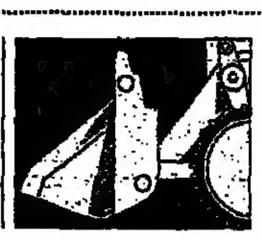
هكذا من الاصل

FINANCIAL TIMES

World Business Newspaper http://www.FT.com TUESDAY JULY 14 1998

Deflation strategies
Companies must prepare
Peter Martin, Page 14
Now weekly on Tuesdays



Caterpillar and Cummins
Lessons in acquiring technologies and markets
Management, Page 11

Living with the euro
Worries grow about forgery and money laundering
Page 3

Japan survey
On the verge of another historic lurch forward?
Separate section

WORLD NEWS

Italy's Berlusconi receives jail term illegal funding

Berlusconi, the Italian media preneur and centre-right sition leader, yesterday ved a jail sentence of more two years, his second sen- e in a week, on the charge of ally financing a political party in early 1990s. **Page 2**

ney-laundering action planned ler proposed amendments to law on money-laundering, casi- s, auditors, estate agents and y offices will have to report any spicious dealings involving client nsactions. **Euro-crime worries, ge 3**

udge rejects ski lift trial An Italian judge rejected prosecu- tors' demands that seven US ser- vicemen stand trial for manslaugh- ter in connection with the deaths of 20 people killed when a military aircraft sliced a ski lift.

New problem for strike-bound GM General Motors, where production has been largely shut down by strikes at two parts plants in Michigan, is to recall close to 1m cars because of problems with air-bags. **Page 7; Lex, Page 18**

Mayors to block Jerusalem plan A group of Israeli mayors said they intended to block government plans to expand Jerusalem's municipal boundaries. **Page 4**

China plans Taiwan mission China is preparing to send a minister to Taiwan for the first time since the end of the civil war in 1949, to emphasise that Taipei should hasten progress towards political negotiations. **Page 6**

Malaysia slips into recession Malaysian finance minister, Anwar Ibrahim, said gross domestic product would contract by 1 to 2 per cent this year in stark contrast to the 2 to 3 per cent growth forecast earlier this year. **Page 18; Editorial Comment, Page 15**

Taliban advances on north The Taliban militia said it was continuing its march on opposition strongholds in northern Afghanistan after capturing the strategic north-western province of Faryab.

Algerian bombers target oil hub Police defused a bomb targeted against Algeria's main oil and gas hub in Arzew, 200 miles west of Algiers.

Europe slaps visa ban on Belarus The European Union slapped visa restrictions on Belarus President Alexander Lukashenko and his ministers in a stand-off over diplomatic housing. **Page 2**

Cambodia to scale down offensive Cambodia will put no great effort into hunting down Khmer Rouge leaders in the northern jungles, preferring to "let them die".

Cypriot missile deal confirmed Russian President Boris Yeltsin and Cypriot President Glafcos Clerides confirmed a controversial deal to supply the divided island with anti-aircraft missiles would go ahead as planned. **Page 2**

Herzog may seek re-election German President Roman Herzog backed away from his long-standing opposition to running for re-election and said he would consider campaigning for a second five-year term.

Octogenarians on the move Fifty-one women over 80 had new German motorcycle registrations this year as octogenarians became the country's fastest-growing motorcycling category, motoring magazine ACE Lenkrad reported.

BUSINESS NEWS

Serious blow to Anglo-Italian telecoms alliance

The alliance between Telecom Italia and Cable and Wireless of the UK suffered a serious blow after three months when deals between the two which would have underpinned the relationship collapsed. **Page 17; Lex, Page 16; Alliance in balance, Page 22**

Sweden may sell its 62 per cent stake in Celsius, the state-controlled defence group, if the company joined any pan-European group emerging from consolidation plans spearheaded by defence ministers. **Page 2**

The second quarter reporting season for US carmakers got off to a sparkling start with record earnings per share from Chrysler, the smallest of Detroit's "Big Three". **Page 17; Chrysler results, Page 16; Lex, Page 16**

The Czech securities commission is investigating whether National Power, the UK electricity company, violated obligations to minority shareholders in its buy-out offer for generating company Elektrarny Opatovice. **Page 20**

Sonera, the state-owned Finnish telecoms utility, and Telia, its Swedish counterpart, are teaming up to buy a 55 per cent holding in UAB Omnitel, Lithuania's biggest mobile phone network operator. **Page 17**

Demand for steel in the troubled Asian economies is expected to fall 0.7 per cent this year and to grow by only 2.6 per cent in 1999, after 1997 growth of 5 per cent. **Commodities, Page 26**

Bolsa, the Madrid stock exchange, joined the Paris and Amsterdam bourses in calling to be included in plans by London and Frankfurt to forge a stock exchange alliance. **Page 20**

Hughes Electronics operating profits rose 36.5 per cent to $78m in the second quarter as revenues at the US satellite group increased 19 per cent and profit margins rose from 5 to 5.7 per cent. **Page 18**

Del Monte, the South African-listed fruit canner, linked with Italian group Cragnotti & Partners Capital Investment which has interests in dairy products, tomato paste and football. **Page 20**

Boeing says it is experiencing difficulties with its 747 production line. The admission comes two weeks after Boeing announced its manufacturing crisis was over. **Page 17**

Salomon Smith Barney, the US investment bank, has appointed co-chief executive officers for Europe to succeed the departing Peter Middleton. **Page 18**

Estonia's central bank approved two separate bank mergers, marking the culmination of a structural overhaul and consolidation of the sector. **Page 20**

Vietnam has made moves which will lead to the creation of a fledgling securities trading market in Ho Chi Minh City by the end of the year. **Page 21**

UBS plans to launch an online home banking service built around Intuit's Quicken personal finance software. **Page 20**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 35

IMF rescues Russia's markets with $11.2bn aid

International package will help boost the rouble and strengthen the budget

By John Thornhill in Moscow and Robert Chote in London

International financial institutions yesterday hauled Russia's financial markets back from the brink by promising an emergency support package of $12.6bn this year.

The International Monetary Fund said it would provide an additional $11.2bn to Russia this year, with the World Bank and the Japanese government contributing an extra $1.4bn.

The size of the deal means that the IMF will have to use a credit line from 11 industrial countries that has not been called on for 20 years. The IMF has to borrow the money because its rescue packages for Asia last year have left it short of cash.

When existing programmes are included, Russia is likely to receive $22.6bn of international financial support before the end of 1999 and may also tap the eurobond market for additional funds as early as September.

The international support package was agreed after the IMF came under heavy pressure from the US Treasury to help stabilise Russia's collapsing financial markets. It is intended to boost the rouble, strengthen the budget, and enable the government to reduce *the crippling levels of* domestic interest rates.

Anatoly Chubais, Russia's chief negotiator, said the financial package had followed extremely *tough discussions, but would* enable the country to pursue further reforms more aggressively.

"We are convinced that these decisions provide the basis for dramatically *stepping* up the efforts of the government to reform the Russian economy, to stabilise and strengthen it," he said. *"This is the guarantee that* Russia will be able to overcome its present financial problems."

The comprehensive support package was well received by investors, who were further cheered by a plan enabling holders of Russian treasury bills to swap their rouble debt into dollar-denominated instruments.

Augusto Lopez-Claros, chief Russia economist for Lehman Brothers, the US stockbrokers, said the IMF had managed investor psychology well. "There is a general sense that the Russians are going to turn the corner," he said. John Odling-Smee, head of the IMF's Europe department, said the fund was prepared to disburse $5.6bn to the Russian government following an IMF board meeting on July 20. But the IMF support package is partly dependent on the Russian government enacting legislation to underpin its budgetary reforms.

Mr Odling-Smee said Russia's federal budget deficit was expected to fall from 6.8 per cent of gross domestic product in 1997 to 5.6 per cent this year as a result of strengthening the fiscal position. Russia would then aim to *run a primary budget surplus of* 3 per cent of GDP in 1999.

Mr Odling-Smee said the Russian government would also ask for a new extended fund facility – *a loan facility which can be* drawn on to support the budget – to be put in place until 2001.

Defence deal confirmed, Page 2
Lex, Page 18

Hashimoto resigns after voters deliver a damning verdict

By Gwen Robinson and Michiyo Nakamoto in Tokyo

Ryutaro Hashimoto, Japan's prime minister, said yesterday he *would resign to take responsibility* for the devastating setback suffered by the ruling Liberal Democratic party in Sunday's partial elections to the upper *house of the diet* (parliament).

The LDP won only 44 out of 126 upper house seats being contested – far short of the 61 seats it held before the election – as voters turned out in large numbers apparently to protest against the government's handling of the economy *and the tottering* banking sector. Japan is suffering its worst recession since the second world war. Many leading banks are sagging from the weight of long unresolved bad loans.

The LDP, which still holds a comfortable majority in the more powerful lower house of the diet, will continue to govern. But it *will have difficulty responding to* calls for quick action until it elects a new president who would automatically become prime minister and choose a new cabinet.

In separate meetings in Tokyo yesterday, central bankers attending a meeting of the Bank for International Settlements and executives at a US-Japan business *forum* warned Japan *not to delay economic reforms.*

The US said the new government must move quickly to implement concrete fiscal and banking measures to bring about *strong domestic* demand-led growth and restore confidence in Japan's financial system.

Koichi Kato, LDP secretary-general, who is also expected to *resign,* indicated a successor would be chosen by next week.

But Kanezo Muraoka, chief cabinet secretary, warned *that* Mr Hashimoto's successor was not likely to be named until the end of the month.

Leading candidates included *Keizo Obuchi, the foreign minister,* and Seiroku Kajiyama, both influential LDP executives.

In the immediate future, the leadership vacuum will affect several initiatives. Sergei Kiriyenko, the Russian prime minister, arrived in Tokyo yesterday for talks with Mr Hashimoto, who told him his resignation would not affect bilateral relations. Mr Hashimoto also said he would cancel his trip next week *to visit the presidents of the US* and France. Mr Obuchi cancelled his visit to China on Wednesday.

Japanese stock, bond and currency markets were mixed on Mr *Hashimoto's resignation,* although Asian markets mostly fell on the news.

By the end of Monday, the yen was at Y142.47 against the dollar, having weakened to 144.50 earlier, and the benchmark Nikkei 225 stock market index closed almost 1.7 per cent higher on the day, after tumbling about 2 per cent *in the morning.*

Black day: residents of the Lower Ormeau Road in Belfast line their street holding black flags to confront a parade by the Unionist Orange Order. The flags were a reminder of the three young boys murdered in a sectarian fire bomb attack at the weekend. The march passed without incident. Drumcree fears recede, Page 16 Picture: PA

Victory brings feelgood factor back to France

By Robert Graham in Paris

Like a phantom vessel in a sea of flags and waving arms, the open double-decker bus carrying France's winning World Cup soccer team was yesterday given a tumultuous victory parade up the Champs Elysées feted by more than 600,000 enthusiastic fans.

With so many people mobbing the players, the convoy was reduced to a snail's pace. "One, two, three ... zero," the players said, gesticulating with their fingers the dramatic score against Brazil on Sunday night. "One, two, three ... zero!" roared back the fans, many with red, white and blue daubs on the faces from the game and post-match revels.

Yesterday's turn-out for the French footballers was a fitting end to an extraordinary 24 hours *of countrywide celebrations.* Police estimated more than one million occupied the Champs Elysées on Sunday night and said Paris had not seen such crowds *since the days of liberation at the* end of the second world war.

French cities saw unprecedented numbers on the streets. The sole sour note was a driver *who panicked in Paris when* supporters jumped on her car and injured almost 80 people in a zig-zag run through the crowd.

The performance of the French team, even before the final game, looked set to be a catalyst in helping restore a long-lost feelgood factor in the nation. This has already been reflected in the unusually high poll ratings for both Jacques Chirac, president, and Lionel Jospin, prime minister – both of whom could be seen with their "tricolore" supporters' scarves cheering at Sunday's final without inhibition.

France had approached the competition with none of the normal confidence that accompanies such occasions. High unemployment, a rise in the strident voice of the racist National Front and an awareness that French culture had lost its world prominence in the past few years had put the nation on the defensive.

Even though there were signs *the Jospin government* was nurturing an economic recovery, few seemed to believe its permanence or that France could solve its many social problems.

Such low morale led *to* great sensitivity to international criticism of the handling of ticket sales in advance of the World Cup. And there was the Air *France* pilots' strike that grounded the national airline as the competition began.

Commentators have highlighted the importance both of new role models among the players that come from France's immigrant community and the way the multi-ethnic team can be an antidote to the country's endemic racism. The sight of Lilian Thuram from Guadaloupe belting out the Marseillaise before scoring two vital semi-final goals was a powerful reminder of those who can be a national saviour.

"The French team has done more for racial integration than years of well-meaning policies from the politicians," said Michèle Tribalat, an immigration expert.

"Zizou" Zidane, the hero of Sunday's final whose parents came from Algeria, is set to be enshrined as a symbol of immigrant success. He comes from *Marseilles, the hot-bed of the racist* extreme right, and is already being used to show the National Front it does not own the freehold on French nationalism.

For the first time on a popular public occasion, Algerians flags have been waved together with the French suggesting at least some of France's 35-year-old trauma over losing its former colony is being laid to rest.

World Cup, Page 12

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9069.52	(-16.22)
NASDAQ Composite	1958.06	(+15.02%)
Europe and Far East		
CAC40	(C)	
DAX	6019.48	(+37.05)
FTSE 100	5958.2	(+28.5)
Nikkei	16,360.39	(+270.33)
US Lunchtime RATES		
Federal Funds	5.56%	
3-mth Treas Bills: Yld	5.08%	
Long Bond	106½	
Yield	5.68%	
OTHER RATES		
UK: 3-mo Interbank	7½%	(same)
UK: 10 yr Gilt	110.2188	(110.453)
France: 10 yr OAT	105.29	(105.62)
Germany: 10 yr Bund	109.06	(109.39)
Japan: 10 yr JGB	110.36	(110.66)
NORTH SEA OIL (Argus)		
Brent Dated	$11.705	(11.705)

GOLD		
New York: Comex		
	$291.7	(290.8)
London:		
	$291.95	(291.05)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.644	
DM	1.79985	
FFr	6.0315	
SFr	1.5165	
Y	140.925	
London:		
£	1.6422	(1.6323)
DM	1.8036	(1.8153)
FFr	6.0444	(6.085)
SFr	1.5227	(1.5367)
Y	140.9	(140.975)
Tokyo Close		Y 142.415
Sterling		
DM	2.9619	(2.968)

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

CONTENTS

Full contents and Lex: back page

WORLD NEWS

EUROPE

Berlusconi given another jail sentence

By James Blitz in Rome

Silvio Berlusconi, the Italian media entrepreneur and centre-right opposition leader, yesterday received a jail sentence for the second time in less than a week – this time on the charge of illegally financing a political party in the early 1990s.

Announcing what is by far the most serious of the three convictions that Mr Berlusconi has thus far sustained, a Milan court sentenced the Forza Italia leader to two years and four months in prison for illegally channeling some L22bn ($12.3m) to the former Socialist prime minister, Bettino Craxi.

He was also fined L10bn while Mr Craxi, who is currently in hiding in Tunisia, was given a four-year jail term.

As with the two previous convictions, which involved false accounting and the bribery of tax inspectors, Mr Berlusconi is unlikely to go to jail for many years – if ever.

The Italian justice system allows defendants two appeals after an initial sentence, a procedure that can last years.

At the same time, Mr Berlusconi's membership of the Italian parliament means that he cannot even be held in police custody without formal authorisation from the chamber of deputies itself.

Mr Berlusconi, 61, has always proclaimed his innocence, saying the payments – from a Channel Islands account called All-Iberian – were destined for a Tunisian business partner who was setting up film rights deals.

Yesterday's jail sentence is certain to fuel the debate raging in Rome this summer over whether Mr Berlusconi is being victimised by Italian prosecutors and judges – or whether he now ought to stand down from political life altogether, as some of the rightwing parties would wish.

Mr Berlusconi, who was prime minister for seven months in 1994, faces another six trials on charges of tax fraud and corruption and he has also been charged with tax fraud in Spain in relation to his Telecinco television channel.

At the end of last week, President Oscar Luigi Scalfaro lent his name to those who believe that the Milan group of "clean hands" magistrates are unfairly singling out certain public figures for criminal investigations, failing to ensure that the law is evenly applied.

The president also made clear, however, that he had little time for Mr Berlusconi's attacks on the judicial system, stating that "nobody is absolved from the force of the law".

Germany warns Brussels in clash over state aid

By Peter Norman in Bonn

The German government yesterday warned the European Commission against siding with Britain in an increasingly acrimonious row over state aid to two German anthracite producers.

Guñnter Rexrodt, Bonn economics minister, told Christos Papoutsis, EU energy commissioner, he "could not accept a settlement of the dispute that resulted in the repayment of any sums" of assistance provided to Preussag Anthrazit, a German coal producer, and Sophia Jacoba, a mine the German coal company Ruhrkohle shut last year.

Mr Rexrodt's warning came amid German press reports that the Commission is likely soon to demand repayment of up to DM177m ($98.3m) of subsidies from the two companies.

The Commission began investigating how the subsidies were spent after Celtic Energy, a UK coal producer, claimed the aid had been used to finance the sale of German anthracite in the UK at dumping prices.

A Commission spokesman in Brussels said yesterday no decision had yet been reached on the case, which concerned the use of DM278m of aid to Preussag and DM190m to Sophia Jacoba to finance restructuring.

In Germany, the authorities seem to believe an adverse decision is imminent and that it could bankrupt Preussag Anthrazit, which employs 3,000 in Ibbenbüren in North Rhine-Westphalia.

Indicating grave local concern, Wolfgang Clement, the state's prime minister, will travel to Strasbourg today with his economics and finance ministers to lobby commissioners for a decision in favour of the company.

Mr Rexrodt's letter to Mr Papoutsis took no pains to disguise his frustration. He said it was "incomprehensible" that efforts to reach an amicable settlement had failed.

He warned that an order to repay the subsidies would create further discord and impose a burden on European co-operation. Bonn is especially irritated that the case has gone so far because Celtic Energy withdrew its original complaint some months ago.

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg (ISSN 0174 7363). Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maravigna, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Bradley P Johnson. Telephone +46 8 791 2345. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

R

Clerides confirms defence deal

Russia will proceed with its $600m missile sale to the Greek Cypriots

By Astrid Wendlandt in Moscow and Christopher de Bellaigue

President Boris Yeltsin (right) meets his Cypriot counterpart Glafcos Clerides in Moscow yesterday AP

Turkey reacted coolly yesterday after Glafcos Clerides, the Cyprus president, reiterated his determination during a meeting with President Boris Yeltsin to buy Russian S-300 anti-aircraft missiles to defend the Greek-controlled half of the island.

The sale, estimated at $600m, would significantly strengthen the island's defence capabilities in case of an attack by its neighbour Turkey.

The Greeks have already postponed the arrival of the missiles from August to November. Members of Nato, the western defence alliance, had hoped to persuade Mr Clerides to give up the project. Instead, an announcement made by Sergei Prikhodo, a Kremlin aide, said that the two leaders had "confirmed their readiness to meet obligations undertaken earlier."

Turkey regards the missiles as a threat to its security, and has hinted that it will meet their deployment with force. After yesterday's announcement, however, Turkey's foreign ministry merely recalled a statement made last month by Ismail Cem, the foreign minister, in which he said Turkey would "take all necessary measures to protect the security of [Turkish] Cyprus".

News of the agreement to go ahead with the deal is a blow to the US and other Nato countries which have been trying to cool tensions. Mr Clerides has said he might cancel the order if Turkey stopped flying military aircraft over the island. Turkey has refused to entertain this possibility. Nevertheless, the wording of yesterday's statement was vague enough to keep hopes of a Greek-Cypriot U-turn alive.

Should the deployment go ahead, however, preparations for a Turkish response are reported to be well under way. According to Hurriyet, an Istanbul newspaper which has close links to the military, Turkish F-16s spent last weekend over southern Israel, practising ways of neutralising anti-aircraft missiles. These reports were denied by Israeli officials, who tend to play down their developing military co-operation with Turkey.

Sweden hints at sale of Celsius

By Greg McIvor in Stockholm

The Swedish government may sell its 62 per cent stake in Celsius, the state-controlled defence group, if the company joined any pan-European group emerging from consolidation plans spearheaded by defence ministers.

Anders Sundström, Swedish industry minister, said Celsius was too small to survive alone in an industry which needed to restructure to meet tough US competition. Mr Sundström was one of six European industry ministers who last week asked the continent's defence groups to prepare a blueprint for pan-continental consolidation.

"There are many exciting things for Celsius to do in Europe. Sweden's defence industry will die out if it relies solely on the Swedish military," he said in a Swedish newspaper interview.

Celsius, part-privatised in 1993, depends heavily on its domestic market and receives just 10-15 per cent of its sales revenues from continental western Europe.

Mr Sundström indicated the government would consider selling its stake were Celsius to join a pan-European defence group, helping the company's shares to rise almost 7 per cent yesterday.

Lars Josefsson, chief executive of Celsius, said the company would participate actively in the restructuring moves. He warned the process should be based on commercial considerations and not dictated by politicians.

Mr Josefsson said Celsius was open to a range of alternatives, including acquisitions, sales or joint ventures.

Sweden's other defence group, Saab, has also pledged to join the restructuring. However, Lars Jagerfeldt, a senior Saab executive, said the company had yet to decide "when or how" to proceed. One alternative would be for Saab to tie itself closer to British Aerospace, which paid SKr3.5bn ($434m) for a 35 per cent stake in the company at its stock market flotation by Sweden's Wallenberg industrial empire last month.

However, restructuring would involve job losses – an uncomfortable prospect for the ruling Social Democratic party two months from a general election. The government would be unlikely to sanction Celsius being absorbed entirely into any cross-European defence group. Sweden is committed to retaining a national defence industry and the government would want to see areas of defence know-how retained domestically.

NEWS DIGEST

AZERBAIJAN OIL EXPORTS

Aliyev declares his choice on Caspian pipeline

President Heydar Aliyev of Azerbaijan said yesterday the main export pipeline to carry Caspian Sea oil to the western market was to follow the Baku-Ceyhan route, through Georgia and Turkey to the Mediterranean.

"For Azerbaijan the political decision has been taken," Mr Aliyev said in an interview. Oil companies will still have a say in the decision because they will be putting up the finance, he said, but he dismissed any possible alternative to Baku-Ceyhan.

Three possible export routes for the "main" oil, expected to flow by 2003 from Baku's flagship oil consortium, the Azerbaijan International Oil Company (AIOC), are being studied by a commission. The other routes were through Russia or through Georgia to the Black Sea.

The commission, representing the 12 international oil companies of the consortium, which include British Petroleum, Amoco and Exxon of the US and the State Oil Company of Azerbaijan (SOCAR), had planned to make its recommendation to the president in October. However, Mr Aliyev, brushed aside suggestions that the Baku-Ceyhan might not be their choice. "They will not recommend any better route," he said. Carlotta Gall, Baku

EU BORDERS

Lithuania to readmit emigrants

Lithuania moved to boost its relations with the European Union yesterday when it formally agreed to take back citizens of third countries caught crossing into Poland without permits.

Poland has such a readmission treaty with Germany, which sent back 1,378 illegal immigrants in the first half of this year. Poland also has a treaty with Ukraine, to where it sent back around 1,000 such immigrants in the same period. However, despite repeated requests from the Poles, both Russia and Belarus have failed to agree similar treaties with Warsaw.

Poland is one of six "fast-track" countries currently negotiating membership of the European Union. Lithuania, which has also applied, has been allocated "second wave" status by Brussels. Christopher Bobinski, Warsaw

DUTCH POLITICS

Another minister stands down

The Dutch government lost another member yesterday when Ad Melkert, social affairs and employment minister, was elected parliamentary leader of the Social Democratic party, the PvdA.

Mr Melkert was the main proponent of subsidised work schemes designed to reduce the country's jobless total, which at below 5 per cent of the labour force now stands at less than half the rate of Germany and France. More than 40,000 "Melkert jobs" have been created since the three-party coalition led by Wim Kok took office in 1994.

After a general election last May, Mr Kok is seeking to renew the same grouping of his PvdA with the free-market VVD and centrist D66. Under the Dutch system, cabinet members do not sit in parliament.

Three of the four representatives of D66 – including Hans van Mierlo, foreign minister – had already made clear they would not seek a second term. Newcomers to the cabinet are unlikely to have the same level of international experience, gained in part through the Netherlands presidency of the European Union last year. Gordon Cramb, Amsterdam

LISBON WORLD'S FAIR

Expo 98 fails to draw crowds

Fewer than 50,000 people per day – less than half the expected number – have visited the Lisbon world's fair during its first 50 days.

The organisers had predicted 13m visits between opening day on May 22 and closure on September 30 but, up to last Thursday, Expo 98 had received just 2.4 visits. "Our studies were too optimistic," said a spokeswoman. AP, Lisbon

EU in Belarus ban as housing row rumbles on

By Michael Smith in Brussels

The European Union has banned President Alexander Lukashenko of Belarus and his ministers and officials from entering its countries in a row over an ambassadors' housing complex in Minsk.

EU countries had already recalled their ambassadors from the former Soviet republic after Minsk cut off water and telephones and restricted access to the Drozhdy diplomatic housing complex, saying it needed plumbing repairs. Western officials have speculated that Mr Lukashenko, who also has a home in the complex, wants to have Drozhdy to himself. The EU's latest sanction, discussed by foreign ministers in Brussels yesterday, names more than 130 officials who will be denied entry to the Union. Belarus ambassadors to EU member states have been told to go back to Minsk, EU officials said.

Wolfgang Shüssel, foreign minister of Austria, holder of the rotating EU presidency, expressed his "utter dismay" over Belarus's stance. He said the EU would consider more action if there were further violations of the Vienna convention on diplomatic relations.

Mr Lukashenko said he hoped "common sense and reason would prevail over emotions" on the issue. He regretted the tone of a recent communication by Mr Shüssel to him. "I would like to remind you that you are addressing a head of state, even though you do not fully recognise that state".

Mr Lukashenko's authoritarian style has led to frosty relations with countries around the world. Belaurus's chief ally is Russia which has formed a customs union with it and promised eventual unification of the two countries. Relations between Belarus and the west have been strained by Mr Lukashenko's opposition to Nato's eastward expansion.

In a joint statement yesterday, Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Romania, Slovakia, Slovenia, Iceland and Norway said they shared the EU's objectives. Poland, Belarus's neighbour, said it would maintain a dialogue with Lukashenko although it found the EU's move "fully justified".

● Luxembourg has called upon the EU to carry out an independent study into the impact on capital markets of a proposal to harmonise savings taxes. "Tax harmonisation is one thing, economic and financial realities, at a time of globalisation, are another," Jacques Poos, Luxembourg's foreign minister, told his EU colleagues during a public debate on the work programme of the new Austrian EU presidency. Austria has made tax harmonisation a priority for its presidency. Britain and Luxembourg have both signalled concerns about the plan amid fears about the potential damage to Europe's capital markets.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

	UNITED STATES					JAPAN					GERMANY				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1987	105.6	100.7	103.9	98.4	76.1	101.3	92.5	103.1	100.0	122.9	100.1	95.0	107.0	107.1	110.9
1988	109.9	103.2	106.8	100.2	71.0	102.3	92.3	107.8	96.0	131.0	101.4	98.2	110.0	106.9	109.9
1989	115.2	108.5	109.9	101.9	74.9	105.1	94.2	114.0	98.8	123.5	104.2	99.3	112.9	108.0	107.5
1990	121.5	113.9	113.5	104.9	73.2	108.3	95.7	120.1	99.7	108.2	107.0	101.0	117.9	110.3	109.9
1991	126.6	116.3	117.3	108.4	74.1	111.9	96.8	124.2	103.9	113.2	110.9	103.4	125.3	109.6	107.5
1992	130.4	117.7	120.1	108.4	74.0	114.0	95.9	125.6	112.8	114.5	116.5	104.9	139.1	115.3	110.0
1993	134.3	119.2	123.1	108.6	78.4	115.4	94.3	125.8	118.8	131.9	121.7	105.1	148.2	119.4	111.3
1994	137.8	119.9	126.5	107.9	74.1	116.2	92.6	128.4	118.5	137.3	125.1	106.7	152.5	112.1	109.8
1995	141.7	122.2	129.7	105.7	68.7	115.9	92.0	132.5	115.8	138.3	127.4	107.6	159.1	110.8	114.7
1996	145.8	125.4	133.9	104.8	73.4	115.8	90.4	135.8	113.2	117.7	129.3	107.1	163.0	109.7	109.8
1997	149.2	125.9	138.1	103.7	79.1	117.4	91.0	139.7	110.0	111.5	131.5	108.2	165.0	103.1	104.7
3rd qtr.1997	2.2	−0.1	2.7	−1.4	79.4	1.7	1.3	2.7	−2.5	115.9	1.9	1.4	1.2	−6.1	103.4
4th qtr.1997	1.9	−0.7	3.4	−0.7	80.2	2.1	1.1	1.6	1.8	108.1	1.8	1.1	0.9	−6.1	104.2
1st qtr.1998	1.5	−1.7	3.0	0.1	82.0	2.1	0.5	0.0	3.8	107.0	1.2	0.6	1.2	−5.2	104.0
2nd qtr.1998		−1.0				0.6					1.3				
July 1997	2.2	−0.2	2.5	−1.3	78.6	1.4	1.3	3.2	−2.4	118.0	1.9	1.4	1.3	−9.2	103.5
August	2.2	−0.2	2.8	−1.8	80.0	1.6	1.3	2.9	−1.9	116.9	2.0	1.5	1.1	−4.1	103.0
September	2.1	0.0	2.7	−1.1	79.9	2.2	1.4	1.5	−3.2	112.8	1.9	1.4	1.2	−5.1	103.6
October	2.1	−0.3	3.5	−0.9	79.4	2.4	1.3	1.5	−0.2	111.6	1.8	1.2	1.2	−7.1	104.1
November	1.8	−0.7	3.4	−0.4	79.7	2.0	1.1	1.8	3.9	107.4	1.9	1.2	0.5	−5.1	104.3
December	1.7	−1.2	3.2	−0.6	81.6	1.8	0.9	1.5	1.5	105.3	1.8	1.1	1.2	−6.2	104.2
January 1998	1.6	−1.7	2.8	−0.4	82.4	2.0	0.9	−0.4	3.4	106.5	1.3	0.7	1.2	−5.2	104.4
February	1.4	−1.6	3.1	0.4	81.6	2.0	0.4	0.2	3.4	108.5	1.1	0.7	1.2	−6.2	103.8
March	1.4	−1.8	3.1	0.3	82.1	2.2	0.1	0.3	4.7	106.2	1.1	0.6	1.1	−4.2	103.4
April	1.4	−1.2	2.9	0.0	82.4	0.7	−2.0	−0.3		103.9	1.4	0.3	1.6		103.8
May	1.7	−0.9	3.0	0.0	82.9	0.8				101.0	1.3	0.1			105.1
June		−0.6			84.6	0.4				97.4	1.2				105.1

	FRANCE					ITALY					UNITED KINGDOM				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1987	105.9	98.1	107.8	103.0	104.7	111.0	102.2	111.6	107.5	102.1	107.7	104.9	116.3	106.2	94.6
1988	108.8	102.9	111.5	104.1	102.1	116.5	105.7	118.4	108.5	100.9	113.0	108.7	126.2	108.8	101.9
1989	112.6	108.2	115.8	105.2	99.7	124.2	112.0	125.6	113.6	105.1	121.8	113.9	137.2	114.0	100.5
1990	116.5	107.1	121.5	109.6	102.9	131.7	116.2	134.7	122.6	111.9	133.3	121.0	150.1	121.6	101.4
1991	120.2	105.9	127.1	113.4	100.7	140.3	120.0	147.9	134.2	113.1	141.2	127.5	162.4	127.9	104.4
1992	123.1	104.3	132.3	115.6	104.2	147.7	122.3	155.9	138.8	109.5	146.4	131.5	173.1	128.4	100.9
1993	125.6	101.6	135.6	118.1	106.6	153.9	128.9	161.8	145.6	95.2	148.7	136.7	180.9	127.9	93.1
1994	127.7	102.7	138.2		106.1	160.0	131.6	167.0	139.9	93.3	152.4	140.1	189.5	127.9	94.1
1995	130.0	109.7	141.5		106.1	168.6	142.0	172.2	138.8	90.3	157.6	146.0	198.0	132.6	90.7
1996	132.6	105.8	144.9		108.2	175.0	144.7	175.3	146.6	101.9	161.5	149.8	206.8	139.8	93.7
1997	134.2	105.2	149.0		102.1	178.2	146.6	181.8	148.7	102.7	166.5	151.5	215.8	144.4	109.4
3rd qtr.1997	1.3	0.5	2.8	n.a.	100.3	1.5	1.7	3.4	0.2	101.6	3.5	1.3	4.1	2.8	111.7
4th qtr.1997	1.2	0.9	2.8	n.a.	102.1	1.6	1.5	3.3	−0.7	102.7	3.7	1.0	4.6	3.9	112.1
1st qtr.1998	0.7		2.6	n.a.	100.7	1.7	1.1			102.2	3.4	0.8	5.3	5.9	114.2
2nd qtr.1998				n.a.		1.8						0.9			
July 1997	1.0	n.a.	n.a.	n.a.	99.5	1.6	1.7	3.4	n.a.	101.6	3.4	1.3	4.0	2.8	114.2
August	1.5	n.a.	n.a.	n.a.	99.9	1.5	1.7	3.4	n.a.	101.6	3.5	1.4	4.4	2.6	111.7
September	1.3	n.a.	n.a.	n.a.	101.3	1.4	1.6	3.4	n.a.	102.1	3.6	1.2	4.0	2.6	108.9
October	1.1	n.a.	n.a.	n.a.	101.9	1.6	1.8	3.4	n.a.	102.5	3.7	1.1	4.6	3.7	109.8
November	1.3	n.a.	n.a.	n.a.	102.3	1.6	1.6	3.4	n.a.	103.0	3.7	0.9	4.9	3.9	112.9
December	1.1	n.a.	n.a.	n.a.	102.1	1.5	1.4	3.2	n.a.	102.6	3.6	1.0	4.5	4.0	113.6
January 1998	0.5	n.a.	n.a.	n.a.	100.2	1.6	1.2	1.6	n.a.	102.6	3.3	0.6	4.6	5.0	113.9
February	0.7	n.a.	n.a.	n.a.	100.9	1.8	1.3	1.7	n.a.	102.1	3.4	0.7	5.0	6.1	113.5
March	0.8	n.a.	n.a.	n.a.	101.0	1.7	0.9		n.a.	102.1	3.5	1.0	6.4	6.7	115.3
April	1.0	n.a.	n.a.	n.a.	101.4	1.8	0.9		n.a.	102.5	4.0	0.9	5.6	6.5	115.5
May	1.0	n.a.	n.a.	n.a,	102.1	1.7	0.6		n.a.	103.6	4.2	0.8			111.6
June					102.1	1.8			n.a.	103.6		1.0			113.6

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

هكذا من الاجل

Russia waits on investors' judgment

By Charles Clover in Moscow

Russian financial markets reacted with cautious optimism to yesterday's news that the International Monetary Fund, the World Bank, and the Japanese government would lend Russia an additional $12.6bn this year.

"It is enough for a half year," said one equity fund manager in Moscow.

The bail-out programme had to wait for the recommendation of the IMF mission to Moscow. Now Russia's unpredictable parliament must still consider the many macro-economic reforms which have been made conditions for the loans and the IMF's board must give its approval.

The market reaction itself is critical to the success of the programme, and will determine whether the IMF has brought Russia out of its crisis or just bought it some more time.

"The government has a tight programme now, tighter than anything we have seen in the past," said Philip Poole, east European economist at ING Barings. "The trick is now to turn the psychology of the market. But my fear would be about whether investors simply see this as an exit route from the market and continue to sell."

He said Russia's markets were likely to bounce in response to the IMF package but would need to see solid evidence that the government was serious about reform for that rally to be sustained.

The government has said it would like to increase its total financing package, implying that it plans to raise more funds from commercial borrowers. Financial analysts believe Moscow plans to launch more eurobonds in September.

"To my mind the most important thing is that there is a sustainable story for investors," said Mr Poole.

The reforms, such as budget-cutting, require the co-operation of the Duma, the lower house of parliament. And despite positive statements from the body's leaders on their commitment to reform, no one is taking them for granted.

To head off a political stalemate over its proposals for reform, the IMF has asked that a package of crisis measures, dealing mainly with tax reform and expenditure cuts, be passed by the Duma before the Fund's board releases the funds.

But Alexander Zhukov, the head of the Duma's budget committee, yesterday restated his opposition to passing the whole package as one unit, saying that the Duma will consider each law separately and make amendments as neccessary.

The Duma "in reality will approve around 80 per cent of the laws that are suggested by the government's [stabilisation] programme," he said.

Two critical pieces of the crisis package remain stuck in the Duma. The first problem bill provides for a 5 per *cent sales tax, which failed* by only four votes last week, while the second gets rid of loopholes in the law on personal income tax. Vladimir Avirchev from the liberal Yabloko faction, said that the sales tax bill was likely to pass this week with minor modifications, but the income tax law "will face some difficulty".

In the end, the IMF may not get all it asked for, or it may have to settle for having the measures passed by presidential decree.

Eric Kraus, chief strategist at Regent European Securities, a Moscow-based stockbroker, said: "I think the $20bn can basically provide the wherewithal to defuse the crisis on the GKO [treasury bill] market. It is now up to the Russian government to take advantage of this window of opportunity."

Alarm bells ring over money supply growth

ECB watch

By Wolfgang Münchau in Frankfurt

One of the more surprising and least noted parts of last week's release of data by the European Central Bank were figures showing a surprisingly robust growth of the euro-zone's money stock.

Wim Duisenberg, president of the ECB, announced that M1, a narrow measure of money, went up at an annual rate of 10 per cent in April, while M3, a broader measure, rose by 6 per cent.

Money statistics would matter little if the ECB were to pursue a strategy of pure inflation targeting such as used by the Bank of England. But European monetary officials left no doubt that they will adopt a strategy that puts monetary targeting centre-stage.

The problem is that these figures are higher than they should be. Analysts say an M3 growth rate of between 4 and 4.5 per cent is consistent with inflation of 2 per cent. This is the rate the ECB is expected to adopt as its long-run inflation target.

The monetary data suggest three possibilities. First, the figures could be simply wrong. The ECB has derived the M1 and M3 figures from national statistics, and will not produce its own data series until the autumn. The ECB's own data, and not these national data, will matter for policy purposes.

Secondly, the data could be statistically correct but unstable. This is a far more serious problem for a central bank that targets the rate of *money supply growth. Critics* of monetary targeting have pointed out that the regime change from national currency to the euro, the single European currency, would distort the demand for money in the economy to such an extent that these data are meaningless.

The third and most worrying possibility is that the data could be both correct and stable. This would suggest that the money supply growth might point towards future inflation. Joachim Fels of Morgan Stanley blames the M3 growth on falling interest rates in Italy and Spain. "What matters is the average money supply in the euro-zone. And if that grows above target, it could create inflationary pressures if one assumes that European markets are relatively integrated."

The data suggest that the statistics are of poor quality, or that the economy is lacking resilience, or that the monetary target is unstable. None of the three scenarios is comforting.

Economic indicators for euro-11 countries

	May 1998	Apr 1998	Mar 98	Feb 98	Jan 98	Dec 97	1997	1996
Inflation (annual % chg)†	1.4*	1.4	1.2	1.2	1.1	1.5**	1.6**	2.2**
Unemployment rate, %	11.2	11.3	11.3	11.4	11.4	11.5	11.7	11.6
Trade (Ecu bn)								
Exports	n/a	n/a	71.1	63.3	58.2	65.9	787.4	667.7
Imports	n/a	n/a	63.4	58.1	57.6	57.5	687.1	594.2
Trade balance	n/a	n/a	7.7	5.2	0.6	8.3	99.3	73.5
			Jan-Mar/ Oct-Dec	Dec-Feb/ Sep-Nov	Nov-Jan/ Aug-Oct	Oct-Dec/ Jul-Sep		
Industrial production, % (3 mo over previous 3 mo)	n/a	n/a	1.5	1.2	1.1	1.0	4.2††	-0.2††
GDP growth, %		Q1 1998	Q4 97	Q3 97	Q2 97		1997/96	1996/95
(over same quarter last yr)		3.2	3.0	2.7	2.9		2.5	1.6

* provisional ** estimated † estimated due to Ireland, which provided figures for 1997 but estimated monthly †† annual % change

Source: Eurostat

Police fear euro-cash will bring euro-crime

Living with the euro

By Wolfgang Münchau

Senior police officers are worrying that the arrival of the euro, the single European currency, could intensify criminal activity, including forgery and money *laundering*.

Germany's Federal Criminal Agency (BKA) in Wiesbaden which has set up a strategic unit to simulate various euro-related crime scenarios, concluded that the greatest risk would arise when the new banknotes and coins were introduced in the first half of 2002.

Under the timetable for monetary union (Emu), the European central bank will be responsible for monetary policy from next year, which leaves a three-year gap during which the euro is available only in electronic form.

The prospect of euro-related crime recently hit the headlines when a security hologram for the new euro banknotes was lost on an Air France flight from Paris to Munich. The hologram was en route to a high security printing plant in Bavaria, where it was due to be tested.

French and German police have been investigating the case, but have made little progress according to central bank officials. It has not been even established whether the hologram was stolen or simply lost.

The incident does not by itself constitute a threat to the security of the future bank notes, since a new *hologram has already been* produced and is being tested. But it has focused public attention on the whole security issue in general.

One question relates to the print quality. The banknotes will be printed in every EU country, except Portugal and Luxembourg. The ECB will have to ensure that the quality of printing is identical throughout, a quality control operation of unprecedented scale.

Furthermore, Europeans may not be accustomed to recognising the new banknotes' security features. People may not only be fooled into accepting forgeries but may also reject legitimate notes as fakes. Police fear that the mid-denomination notes of E50 or E100 could be particularly vulnerable to forgery.

International money laundering could prove an even greater problem. At present, the D-Mark is the only EU currency used extensively outside its national territory, especially in east Europe.

German law permits unlimited cash transactions of bank notes, although transactions of over DM20,000 ($11,000) are registered under a money-laundering law. But the burden of proof falls to the police.

Holger Bernsee, president of the Federation of criminal investigators, says: "We already have the situation where people go to their banks with large plastic bags full of cash. There is nothing we can do."

Senior police officers hope that the introduction of the euro could bring about a legal change they have been seeking for some time: the reversal in the burden of proof in such cases.

On a more optimistic note, Ulrich Kersten, president of the BKA, believes the euro presents not only problems but also opportunities. He said: "The exchange of illegal-earned cash not only allows police agencies to identify money-laundering activities, but may also help solve the underlying crimes."

Some economists have argued on *similar lines*: laws to restrict cash transactions between national currencies and the euro could be deployed as an effective weapon against the black economy.

However, such laws could have serious economic implications because of the large size of the black economy in some countries. Restrictions on cash conversion might also penalise older people, who tend to hold a greater proportion of their wealth in cash.

But even if some countries decided to restrict transactions, there is no way to enforce such laws everywhere. In terms of crime legislation and law enforcement, European Union member states remain sovereign.

The only Europe-wide police agency is the European Drugs Unit (EDU), the forerunner of Europol, a police intelligence agency due to become operational sometime next year. But its remit will be limited to areas such as drugs trafficking, the smuggling of nuclear materials and organised crime. Currency crimes are not on the list, unless they are connected to drugs or plutonium.

Mr Bernsee is calling for *Europol's remit* to be extended. For crime areas that do not fall into the EDU's remit, the various national police forces rely on each other for help. Extracting information out of the EDU in a drugs case takes about one day, according to police officers. But in other cases, police must go through Interpol. German police complains that information requested from Italy can take up to three months.

This all raises a fundamental question about Emu: can a group of countries adopt a single monetary policy and a single currency and yet keep most other areas of policy decentralised. Fiscal policy, which remains a responsibility of national governments, has so far attracted most attention. Crime legislation and law enforcement might be next.

EU steps up money laundering fight

The European Union is stepping up its fight against money laundering as the single currency approaches, with plans to broaden the scope of EU-wide legislation, **Neil Buckley reports from Brussels.**

The European Commission, the EU's Brussels-based executive, announced yesterday *it would shortly publish* proposals that would *significantly* strengthen an existing 1991 law on money laundering.

The move would extend the obligations already placed on the financial services sector to other sectors such as casinos and real estate agents, *lawyers* and auditors, to report suspicious transactions.

Banks and financial groups already require identification from customers opening an account or asking for safe deposit facilities, or involved in suspicious transactions or single or linked transactions worth more than Ecu15,000 ($16,310).

At the same time, the definition of suspicious *transactions would be extended* to cover other serious and organised *crime*, as well as drug trafficking.

"There is a shift away from the traditional financial sector, the banking sector in particular, and money launderers are looking for other ways of laundering *their criminal* proceeds," one Commission official said yesterday.

INTERNATIONAL

Mayors to fight plan to expand Jerusalem

By Judy Dempsey in Jerusalem

A group of Israeli mayors said yesterday they intended to block plans by the government to expand the municipal boundaries of Jerusalem.

The move could galvanise opposition to one of the largest projects since Israel annexed eastern Jerusalem and occupied the West Bank after the 1967 war.

The plan entails the creation of an "Umbrella Municipality" or Greater Jerusalem, in which suburbs west of Jerusalem and Jewish settlements in the West Bank will be placed under it. The Israeli government has told the US the plan only concerns west Jerusalem, and does not include Arab east Jerusalem. But official documents debated and agreed by the Israeli cabinet last month show how some settlements in the West Bank will be incorporated into a Greater Jerusalem.

This contravenes the 1995 interim agreement signed between Israel and the Palestinians in which both sides agreed the status of Jerusalem should be left until a final settlement and that neither side would take steps prejudicing the outcome of those talks.

Under the plan, the Jerusalem municipal area will expand from 121.5 sq km to 600 sq km. Of that, east Jerusalem's boundaries area will grow from 70.5 sq km to 360 sq km, which means some 8 per cent of the West Bank will be annexed by the enlarged Jerusalem municipality. Benjamin Netanyahu, Israeli prime minister, and Ehud Olmert, Jerusalem mayor, have brushed aside Palestinian protests. However, protests from the other side of Jerusalem – from among mayors of suburbs west of the city – may have a different result.

"We will never join Jerusalem," said Elie Moyal, mayor of Mevasseret Zion, a well-heeled suburb less than 15 minutes west of Jerusalem. "We fled Jerusalem because we wanted to be free of the religious pressure, escape the high city taxes and have a better life."

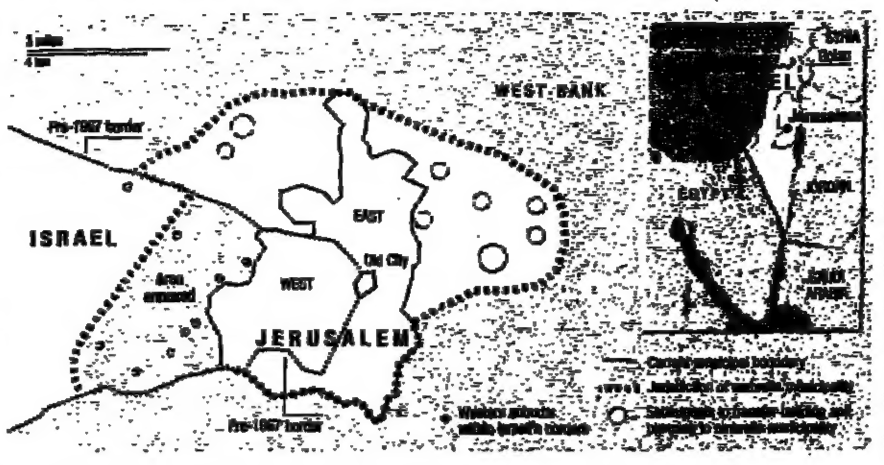
The residents of these suburbs are facing the threat of mild disruption compared to what Palestinians living in the West Bank experience on a regular basis. This year alone, Israel confiscated 37,758 Palestinian dunams (4.4 acres is one dunam) and demolished 73 houses.

Mr Moyal, however, said he had no intention of supporting the Palestinians. "Olmert wants our money to finance his political ambitions," he said. Mr Olmert and the Israeli government will require substantial amounts of money for their Greater Jerusalem plan since it entails building a new road linking Jerusalem with the settlements in the West Bank.

The documents show how the road will be a "security" one, similar to the large bypass roads built on Palestinian confiscated land for settlers in the West Bank. Palestinian officials said the road will sever links between Palestinian areas of the West Bank and East Jerusalem while cementing links between some Jewish settlements in the West Bank and Jerusalem.

Editorial comment, Page 15

Israeli police remove an ultra-Orthodox rabbi from a road construction site near Jerusalem yesterday. About 20 protesters claimed ancient graves uncovered were being desecrated Reuters



British lottery 'the most efficient'

By Scheherazade Daneshkhu, Leisure Industries Correspondent

The UK's national lottery is the world's most efficient for the third year running, according to an independent research company.

The lottery, run by the Camelot consortium, gives more money to the government and good causes as a proportion of its revenue than any other large lottery, according to La Fleur's Lottery World, the US-based publication.

It is also the biggest of the 35 lotteries surveyed, with annual sales in 1997/98 of \$9.3bn. The state lotteries of Spain and Italy ranked second and third with sales of \$6.53bn and \$6.5bn respectively.

The research should bolster Camelot's attempts to diversify internationally. The consortium, which won the seven-year licence to operate the UK's first National Lottery in 1994, set up Camelot International Services, a subsidiary company, last year with a view to running overseas lotteries.

Richard Brown, director of parliamentary affairs at Camelot, said yesterday the consortium was looking with interest at developments in South Africa which is expected soon to invite tenders for the operation of a national lottery.

Under the terms of its licence, Camelot is allowed to operate overseas lotteries but it must satisfy Oflot, its regulator, that in doing so it does not divert resources to the detriment of the running of the UK national lottery.

Japan's Dai-Ichi Kangyo bank lottery ranked second in terms of total returns to good causes and government, with \$2.3bn, after the UK national lottery's \$4.1bn.

The Italian state lottery was third with total returns of \$2bn.

Kazakh austerity package agreed

By Charles Clover in Moscow

Kazakhstan's government has agreed to implement a package of austerity measures designed to stave off an economic crisis.

The move comes as low commodity prices take their toll on the former Soviet republic's export revenues and world financial markets continue to be inhospitable to its borrowing needs.

The government has pledged in a hurriedly adopted memorandum to "take preventive measures to consolidate the revenues of Kazakhstan's state budget and to cut its expenditures".

This follows President Nursultan Nazarbayev's ultimatum to his government on Friday to deal with the crisis. "Probably I am warning you for the last time," he said.

Almost all Kazakhstan's exports are unprocessed commodities – mainly oil, metals, phosphates, and grain. Each of these accounts for roughly a quarter of its annual trade revenue of \$4bn-\$5bn.

Trade figures for this year are not yet available, but oil and metals prices are at their lowest for years. In addition, the government has had to delay key eurobond issues this year after the Asian crisis dried up funds for emerging markets such as Kazakhstan.

The Kazakh government's sweeping attempts to restructure its budget have so far had mixed success. A decree last year slashing the government workforce by 25 per cent was apparently never implemented, but it has taken many bold steps towards market reform.

The memorandum, issued at the weekend, pledged to cut 10,000 state employees by September 1, along with spending by state organisations. The government also pledged to review contracts with foreign companies which have not met government obligations.

Shell audit tells of action on global warming

By Gordon Cramb in Amsterdam and Robert Corzine in London

Royal Dutch/Shell yesterday published its first externally verified environmental audit and said it expects to increase the flaring of unwanted natural gas this year – paradoxically to reduce global warming.

The Anglo-Dutch energy group says it is still committed to putting out the controversial flares, most of which are in Nigeria, by the year 2008. But in its report on the health, safety and environmental impact of its worldwide operations, Shell said it expects a rise in flaring because it is phasing out the more damaging practice of venting unwanted methane directly to the atmosphere.

Burning one tonne of methane in the most efficient flare produces 2.7 tonnes of carbon dioxide, a greenhouse gas. But Shell says "the global warming potential" of directly released methane is 25 times greater than that of carbon dioxide.

Shell's operations in Nigeria, where large quantities of unwanted gas are produced along with crude oil, account for 80 per cent of the 9.1m tonnes of hydrocarbons which the company expects to flare this year.

But Shell admitted that the figures on flaring in Nigeria "are not considered to have the desired degree of accuracy". Cor Herkströter, Shell's retiring chairman, described the verification exercise as "a truly pioneering effort ... as far as we know no other worldwide organisation has attempted such a large and thorough job before".

The accountants who took part in the exercise say it was one of their toughest assignments.

In auditing for the first time the local impact of the worldwide operations of Shell, a 150-strong team from KPMG and Price Waterhouse visited about 30 sites of its own choosing, including Nigeria, where international controversy over Shell's activities has been greatest.

"I think this is unprecedented in size," says George Molenkamp, a professor at the University of Amsterdam and a director of KPMG, of an audit contract worth some Fl 5m (\$2.5m).

"What most companies are willing to pay for is data at the head office. What we and Shell decided was that this was not enough; we needed to go to the heart of the company." Mr Herkströter said in May: "We must show people that we mean what we say.

"This requires publishing targets and results and, in line with normal business practice, seeking independent verification of our claims where this is practicable and appropriate."

Greenpeace, the environmental pressure group, acknowledges that there has been a change at least in tone. "Shell has made a very great effort this year to play up its environmental credentials, its openness and transparency," says Kirsty Hamilton, its climate campaigner.

"The question we would ask is what this shows about whether it is looking to change the way it actually spends money to meet the principles set out."

Recent investments in "dirty" operations such as a coal-fired power station in Australia and a Canadian tar-sands project suggest its attitude to fossil fuels has not changed, she argues.

But Shell has committed \$500m over five years to renewable energy technologies, in particular solar and biomass processes.

Environmental accounting can benefit companies in two main ways. First, it can focus internal attention on a need for savings in the use of energy and other materials. By one estimate, a good environmental performance can add as much as 5 per cent to net profits. Shell is, for example, seeking markets near its refineries for the gas which it otherwise has to flare off.

Second, investment institutions are anxious to protect themselves against accusations that they hold stakes in dirty industries. The cleaner the bill of health, especially if certified by an accounting firm, the better the chances for the share price of a manufacturing multinational.

Led by Prof Molenkamp, Shell's auditors formed an opinion on the non-financial performance of all its global operations, based on those they visited and on data accumulated from the remainder.

"What we have gone through is quite a new process, because it has never happened before that these standards have been applied to the environment, or health and safety."

WORLD TRADE

Steel union says Nafta 'unconstitutional'

By Nancy Dunne in Washington

The United Steelworkers of America union yesterday filed a suit in the US District Court challenging the constitutionality of the 3½-year-old North American Free Trade Agreement which comprises the US, Canada and Mexico.

The union, which represents 750,000 industrial workers, and another group, the USA Foundation, which joined the suit, said approval of Nafta by Congress in 1993 was unconstitutional because it was submitted as a trade agreement rather than a treaty and did not get enough votes in the Senate.

Unions have ferociously opposed Nafta, fearing that it would encourage US companies to relocate factories to Mexico to take advantage of cheaper labour.

Under the US constitution, a treaty must receive the votes of two-thirds of the Senate. However Congress, which has constitutional authority to regulate trade, has written into law that trade pacts could be approved by a majority in both houses.

"Nafta is a betrayal of American workers," said George Becker, president of the Steelworkers. "Because Nafta is a treaty that never received the constitutionally-required two-thirds vote in the US Senate, we have no recourse but to now seek a judicial review in the federal courts."

Scholars and lawyers have long argued about the constitutionality of the trade pact approval process, particularly since trade agreements have begun to include issues such as food safety rules, environment, labour and intellectual property rights. But a recent ruling that the president's line item veto was unconstitutional – although Congress had ceded him power to veto individual items in the budget – seems to have given impetus to the case.

"The House Ways and Means Committee has written that Nafta 'is the most comprehensive trade agreement ever negotiated and creates the world's largest integrated market for goods and services,'" the plaintiffs say in their suit.

"Nafta binds the three signatory nations together in a way that is unique in the annals of American trade agreements; indeed, it is the economic equivalent of a military alliance."

Susan Aaronson, a trade historian, said the suit might fail because Congress had not given up its power to regulate commerce. "This isn't a military alliance. This is about trade. How could it not be constitutional when Congress itself made this process possible?"

The steelworkers say Mexico used a special constitutional procedure for adopting treaties, and specifically described Nafta as a treaty.

German toolmakers ride high on back of investment surge

Sales are rising as Europe emerges from recession but, asks **Peter Marsh**, does the sector need to build global companies?

It was not without foreboding that Klaus Frick, chief executive of Index, a big German machine toolmaker, last year agreed to take over Traub, a rival tool company based a few kilometres away on the outskirts of Stuttgart.

Traub had suffered years of financial difficulties and the whole of Germany's machine tool industry, Europe's biggest, was only gradually emerging from the deep recession of the early 1990s.

But now Mr Frick is smiling. "It [the takeover] has worked out fantastically," he says.

Behind Mr Frick's confidence is the general upturn in the German machine tool sector. The VDW, the country's machine tool trade association, expects output this year of DM15.1bn (\$8.3bn), 10 per cent up on last year.

With 60 per cent of its production exported, the industry is an important supplier of manufacturing machinery for a range of sectors from vehicles to office equipment.

It has benefited not just from the weaker D-Mark, but from the investment surge starting to take place across much of European industry, particularly in Germany, France and Italy. Continuing strong demand from the US, which accounts for about 12 per cent of German machine tool sales, has also helped.

In the first five months of this year, the German machine tool industry's order books increased 36 per cent on the equivalent period last year, according to VDW figures. Meanwhile the shock waves from the financial crisis in south-east Asia and Korea – which last year purchased only roughly 3 per cent of German machine tool suppliers' output, out of 11 per cent going to Asia as a whole – will have only a minor short-term effect, many in the industry believe.

After the bleak period at the start of the decade, in which machine tool production from Germany fell 40 per cent to DM10.4bn in 1994, much of the industry is in an upbeat mood.

Thyssen, the steel and industrial goods company which is merging its steel interests with Krupp, last year spent DM1.2bn buying Giddings & Lewis, a big US machine toolmaker, to form Germany's biggest machine tool maker with worldwide annual sales of DM1.8bn.

Trumpf, the maker of specialist laser cutting systems which is Germany's second biggest machine tool producer, has recently announced a big rise in profits. It is spending DM100m over the next year on expanding its plants in Germany, Switzerland and the US.

At the Index/Traub group, with combined sales of DM590m last year, Mr Frick says he will increase revenues to nearly DM700m this year, with much of the resurgence due to strong demand from the worldwide car industry, which takes 40 per cent of the company's output.

At Müller Weingarten, a large maker of press machines for automotive companies, which was hit hard by the decline in orders in the early 1990s, the company has returned to profits after being acquired last year by a consortium including Schuler, a rival German press machine maker, and Feintool, a Swiss machinery business.

According to Michael Heinrich, Müller's finance director, sales are likely to increase to about DM530m this year, from DM490m last year. "We have made the company more competitive through new working arrangements which have cut costs and improved flexibility and productivity," Mr Heinrich says.

The company expects to see sales increases in the next few years from a new family of "jumbo" presses, costing up to DM80m. The machines can improve efficiencies in the automotive industry by forming the complete side of a car out of one sheet of metal, rather than several.

Heller, another big German tool supplier, with expected sales of DM500m this year, has boosted its revenues through adding "service packages" to individual machine tools.

Customers receive help on how to use their machines in specific applications, plus other equipment needed to make the tool more efficient. These deals can bring the total contract price of a machine to more than DM1bn, on top of the DM500,000 that the tool alone might cost. "It's a way of adding to our competitive edge," says Berndt Heller, managing director and part owner.

Although Mr Heller is confident of steady growth in the next year or so, he is concerned that the current sales spurt may not last. "We are seeing a tremendous up at the moment, but there is a down waiting for us," says Mr Heller.

Others fear that the impact of the Asia crisis could be worse than initially thought. Edson Gaylord, chairman of Ingersoll, a large privately owned US machine toolmaker which has several plants in Germany, says that even though business from continental Europe is better than for some time, the virtual ending of orders from Korea, which was envisaged as a big source of future growth, is a longer-term worry.

Others are concerned that Germany's machine tool suppliers – which are mostly small, privately owned companies – lack the financial muscle to see out the bad times that are inevitable in an industry highly dependent on the cyclical swings in industrial investment.

Berthold Leibinger, president and majority owner of Trumpf, says he has been trying for years to persuade industry colleagues to build bigger, global companies through mergers, similar to the Index/Traub deal. However he complains that they are "too conservative" to pay more than lip service to this approach.

Tools and the trade
German machine tools [...] strong re[...]
Output (DMbn)

NEWS DIGEST

US SHRIMP BAN

Washington appeals against WTO ruling

The US yesterday formally appealed against a World Trade Organisation panel ruling that a US ban on shrimps caught in nets without turtle excluders contravened international trade rules. In April the panel upheld a complaint by India, Pakistan, Thailand and Malaysia that the ban, intended to protect endangered sea turtles from drowning in shrimp nets, unfairly imposed US law on third countries.

Environmental groups, especially in the US, have attacked the judgment as yet another example of the way trade rules are being interpreted to ride rough-shod over environmental concerns. The case has also managed to unite US environmental organisations against the granting by Congress of fast-track negotiating authority for new trade deals, which the Clinton administration needs for talks on a pan-American free trade area and global negotiations on agriculture and other issues due to start in the WTO late next year.

Washington says in its appeal that the panel misinterpreted WTO rules in two ways, first in arguing that the US measures were not covered by the WTO's exception for environmental conservation, and second in rejecting amicus briefs sent in by environmental organisations. The appeal body's ruling is due in September. **Frances Williams, Geneva**

EU COTTON DUMPING DUTIES

Brussels action wins support

Four European Union states yesterday defended the European Commission's decision to impose duties on unbleached cotton imports from six countries – in the face of a protest by eight other EU countries. Italy, France, Spain and Portugal declared at an EU foreign ministers' meeting that the Commission had "carried out the procedure in an excellent manner". The EU's executive, they added, had "virtually confirmed" the existence of dumping which damaged European industry, justifying the measures against China, Egypt, India, Indonesia, Pakistan and Turkey.

They were responding to a highly unusual declaration from the UK and seven other EU states that the Commission ignored the wishes of the majority by imposing the provisional, six-month, duties, making a "regrettable decision".

Doug Henderson, UK minister for Europe, said the move could cost 7,000 jobs in the UK textile finishing sector. Robin Cook, British foreign secretary, said the declaration "made it perfectly clear, on the record, that a majority of [EU states] opposed this move" and that the Commission would not get the required ministerial backing to turn the duties into definitive, five-year measures. **Neil Buckley, Brussels**

Editorial comment, Page 15

OECD Export Credit Rates

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially supported export credits for July 15 1998 to August 14 1998 (June 15 1998 to July 14 1998 in brackets).

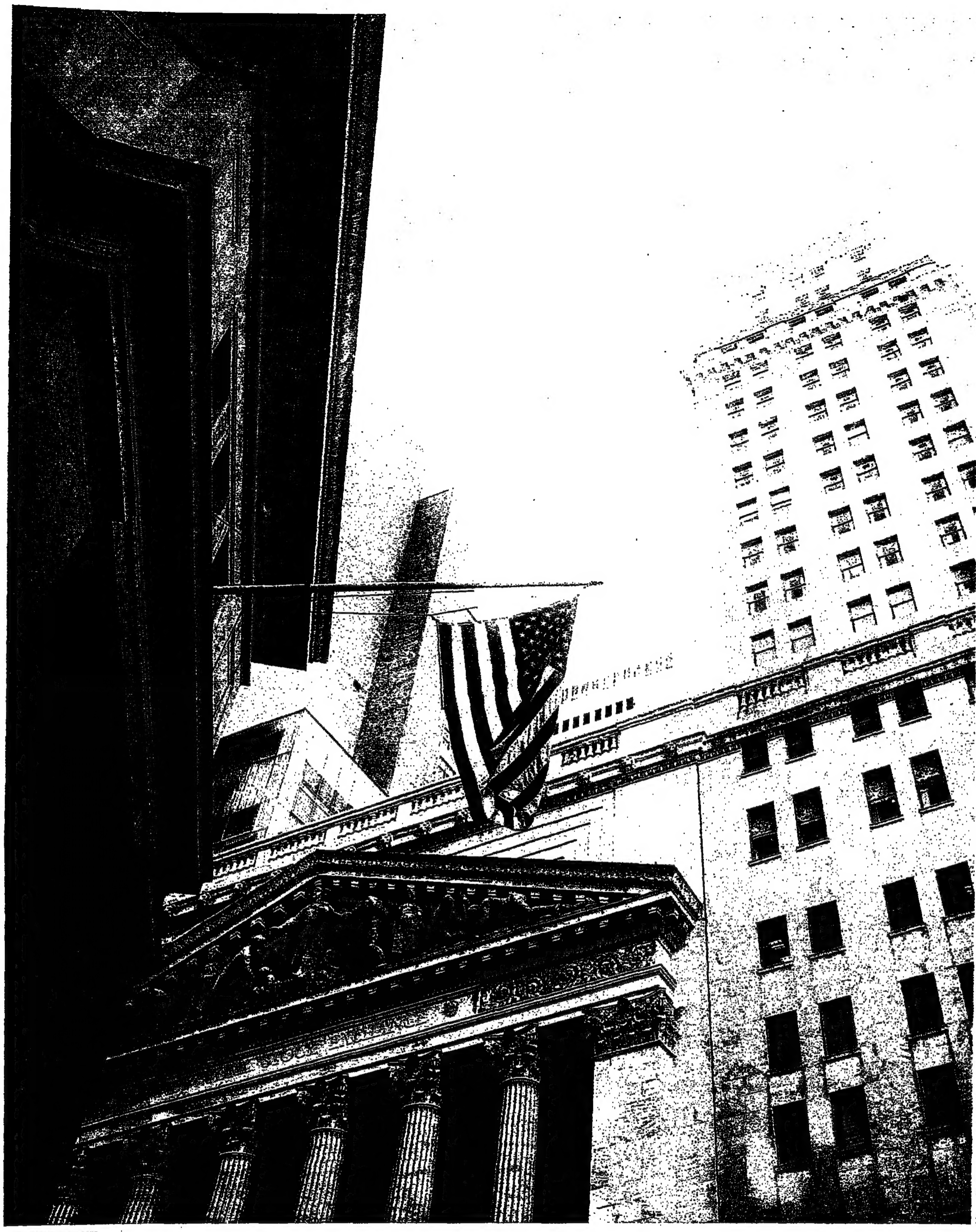
D-Mark	5.46	(5.55)	Yen	2.10	(2.20*)
Ecu	5.27	(5.42)	Peseta	5.82	(5.88)
French franc	5.82	(5.77)	Sterling	7.13	(7.05)
Guilder			Swiss franc	4.21	(4.06)
up to 5 years	5.46	(5.50)	US dollar for credits		
5 to 8.5 years	5.60	(5.70)	up to 5 years	6.52	(6.61)
more than 8.5 years	6.06	(6.10)	5 to 8.5 years	6.52	(6.63)
Italian lire	2.10	(5.93)	more than 8.5 years	6.56	(6.72)

These rates are published monthly by the Financial Times, normally in the middle of the month. A premium of 0.2 per cent is to be added to the credit rates when fixing at bid. Interest rates may not be fixed for more than 120 days.
* The Japanese Yen CIRR changed to 2.10 as of June 20th 1998 ** The Japanese Yen CIRR will change to 2.30 as of July 20th 1998.

هكذا من الأصل

هكذا من الأصل

Kazakh austerity package agreed



www.tntpost-group.com

Morgan Stanley & Co. Limited, which is regulated by The Securities and Futures Authority Limited, has approved this advertisement solely for the purpose of section 57 of the Financial Services Act 1986.

WE HAVE WORKED OUR WAY UP FROM THE MAIL ROOM.

Unlike most other mail rooms, ours was a stepping-stone for a vision. A vision that, seen from the perspective of mail rooms throughout the world, would mark a new beginning enabling global communication to travel with greater ease, speed, and control and less expense than has ever been possible. This vision was translated into *reality just over two years ago when PTT Post (Dutch Mail)* acquired TNT and was transformed into TNT Post Group. This was a landmark event which created TNT Post Group, the first organisation in the world to bring together Mail, Express and Logistics services on this scale under one *global* roof. TNT Post Group *now* operates in more than 200 countries with 100,000 employees. In 1997 our group impressed global economists when it recorded sales of NLG 15.3 billion (approximately USD 7.6). A performance that in no small part paved the way to Wall Street and beyond. TNT Post Group is listed on the stock exchanges of New York, London, Amsterdam and Frankfurt. TNT Post Group envisages a future where *our totally integrated network of* Mail, Express and Logistics will lead to a global system where special delivery becomes the rule rather than the exception and V.I.P. treatment is standard procedure for all our customers and shareholders.

TPG
TNT POST GROUP

THE WORLD BEHIND TNT AND PTT POST.

7

JAPAN THE SUCCESSION TO HASHIMOTO

The rooms begin to fill with smoke

By Michiyo Nakamoto in Tokyo

In the early hours of yesterday morning the tell-tale black limousines wove their way through the narrow alleys leading to the mansions of the elder-statesmen of Japan's Liberal Democratic party. Behind sliding-screen doors at the LDP headquarters and in privately reserved hotel suites far from the public gaze the search for a new prime minister was beginning.

Whoever is to succeed Ryutaro Hashimoto will need to persuade the LDP's kingmakers that he has the qualities necessary to pull the country back from the economic abyss and revamp the party's tattered public image. Among the kingmakers are three former prime ministers – Yasuhiro Nakasone, Noboru Takeshita and Kiichi Miyazawa – whose names have also been mentioned as emergency candidates until a younger successor can be found.

Then there is Hiromu Nonaka, acting secretary general, who is widely considered, in the world of Japanese politics still ruled by seniority, intra-party factionalism and consensus-building, to be LDP kingmaker par excellence.

Members of the largest LDP faction led by Keizo Obuchi, foreign minister and one of the leading candidates to succeed Mr Hashimoto, gathered to discuss strategy at the home of Mr Takeshita within hours of the results of the upper house elections being announced. Mr Takeshita, who has been Mr Hashimoto's mentor, still wields substantial influence in the LDP. But if Mr Obuchi is to win the race, he will have to overcome a negative image as an old-style LDP politician wanting in leadership skills and with little experience of economic management.

His most formidable rival is Seiroku Kajiyama, an outspoken critic of Mr Hashimoto who has earned support for his bold initiatives on measures to stimulate the economy. Mr Kajiyama, who is supported by Mr Nakasone, is widely seen as the favoured candidate. Minoru Morita, a political analyst, says Mr Kajiyama would send a strong signal to the public that the LDP is reversing its tight fiscal policy for an expansionary one. He also has the ability to act decisively, he adds.

However, it is almost certain that the current LDP secretariat, led by Koichi Kato, the LDP secretary-general, will try to lessen the chance of Mr Kajiyama winning the nomination, if not obstruct his chances altogether. Mr Kajiyama has been consistently critical of Mr Hashimoto's policies, and of the LDP secretariat who have supported those policies. Although the secretariat has been severely weakened by the poor performance on Sunday, and is expected to resign together with Mr Hashimoto, Mr Kato and company will want to salvage their political careers as best they can.

If Mr Kajiyama succeeds "it will mean Mr Kato's downfall", says Takao Toshikawa, a political analyst.

Mr Kato could try to insure against this by calling for the dark horse nomination of Junichiro Koizumi, health and welfare minister and a close associate, says Mr Toshikawa. Mr Koizumi, a maverick politician who is strongly committed to reform of the bureaucracy, would help revamp the LDP's damaged image among the electorate.

While Mr Koizumi is probably too non-conformist to be accepted by the LDP mainstream, there is a chance that with intense lobbying by the anti-Kajiyama camp, he could win a key job, such as finance minister, says Mr Toshikawa.

For the next few weeks, as the political horsetrading continues, the whispers behind sliding doors and in smoke-filled rooms can be expected to grow louder by the day.

JAPAN RISE IN TOKYO STOCK MARKET'S BENCHMARK INDEX SEEN AS CRUSHING VERDICT ON OUTGOING PRIME MINISTER

Markets take view that the worst is over

By Alexandra Harney in Tokyo and Gerard Baker in Washington

"The feeling is that the worst is over. Mr Hashimoto was the worst, and the market saw that," said Ryoji Musha, chief strategist at Deutsche Morgan Grenfell in Tokyo. It was a sad reflection on Ryutaro Hashimoto's tarnished reputation that when he resigned yesterday, the benchmark Nikkei 225 closed higher.

In the long term, Mr Hashimoto's departure is being viewed as positive. Japan needs to reflate its economy, and the author of last year's fiscal reform laws, aimed at cutting the country's budget deficit, was always going to find it difficult to do this.

Mr Hashimoto's successor will find it far easier to cut taxes and increase government spending. Market volatility may not end with the appointment of a new prime minister. Much will depend on who is chosen.

"Everyone knows what the new administration should do, including the LDP," said Pelham Smithers, strategist at ING Barings. "Since it is so obvious, one has to assume that they will implement tax cuts."

But any increase in government spending would have to be funded through an increase in debt. In the bond market, prices fell on concerns that a new government's fiscal policy would mean new bond issues to back public spending.

A critical issue for the new administration will be its ability to deliver reforms for the troubled banking sector. Yesterday, banking shares rose on hopes a new administration would push through a package to help Japan's banking system.

The new prime minister will need to be able to implement the LDP's "bridge bank" plan to tackle the banking system's liquidity problems. Koji Tanami, finance ministry vice-minister, said yesterday the plan would be a legislative priority in the next Diet session, which opens on July 26.

A further vital measure will be tax cuts aimed at boosting consumer demand.

In the weeks before the election, Mr Hashimoto wavered on their commitment to permanent tax cuts and tax reform.

The issue could be critical in moulding investor sentiment. "People will be looking for every sign of tax cuts. At every mention of a tax cut, the market will go up; every time it is contradicted, it will go down," said Garry Evans, strategist at HSBC James Capel.

In the short term, the leadership struggle could destabilise markets as rumours circulate about the new administration's policies, analysts said.

A speedy resolution would be welcomed all round. A long transition could be destabilising, especially for the currency markets. The Japanese currency looks particularly vulnerable.

On the announcement of Mr Hashimoto's resignation, it fell to Y144 against the dollar, before rebounding to Y141.7 in late Tokyo trading. "What it does highlight is that even with good news, there is downward pressure on the yen," said Mr Smithers at ING Barings.

The key to the immediate performance of the yen may be what the US administration makes of Mr Hashimoto's departure and the policy implications of a change of government.

The US intervened in currency markets a month ago to prop up the yen. That move was intended to buy time for Tokyo to come up with new measures on the banking and fiscal fronts. The US reaction to last month's announcement of new financial proposals and to last week's hints of what may come in the fiscal package was mildly supportive.

The difficult question for the US is whether, in the period of uncertainty before a new leader takes office, the yen may fall further.

There was no hint yesterday of the US view of the latest developments but the dollar gave up some of its early gains after Robert Rubin, Treasury secretary, said that US dollar policy was unchanged and that the weak yen remained the focus of administration concerns.

Central bankers urge reform despite political turmoil

Leading central bank governors yesterday urged Japan to proceed swiftly with a scheme to overhaul its troubled banking system, regardless of political uncertainty following the resignation yesterday of Ryutaro Hashimoto, Japan's prime minister, writes Gwen Robinson in Tokyo.

In separate meetings with senior Japanese finance officials, the governors of the US and German central banks are also understood to have urged the government to raise the minimum capital adequacy requirement of Japanese banks beyond the 8 per cent level suggested by the Bank for International Settlements.

More than 30 central bank governors met yesterday in Tokyo for the BIS monthly meeting, the first time the meeting has taking place outside Europe.

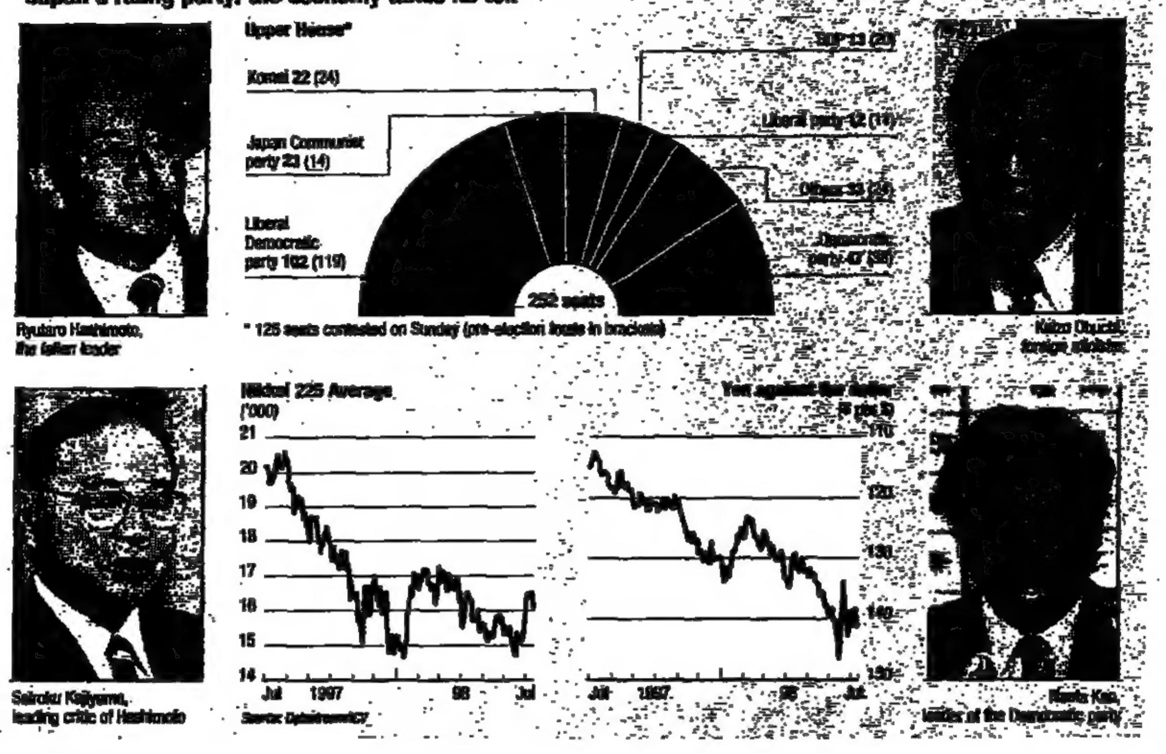
Alfons Verplaetse, BIS president, said the decision to meet in Japan was taken well before the Asian crisis, and was intended to coincide with the weekend opening in Hong Kong of the BIS's first Asian regional office.

But the meeting, coming at the height of Japan's economic and political turmoil, provided an ideal opportunity for international bankers to apply what some participants described as "discreet pressure" on Japan to forge ahead with needed reforms.

In recent months, the central banks of the US, England, Australia and Sweden have been involved in helping Japanese counterparts draw up plans to overhaul the Japanese banking system, plagued by more than Y77,000bn ($550bn) in problem loans.

After the meeting, Mr Verplaetse and Hans Tietmeyer, president of the Bundesbank and chairman of the BIS meeting, each urged Japan to keep the reform process on track.

Japan's ruling party: the economy takes its toll



Ryutaro Hashimoto, the fallen leader

Seiroku Kajiyama, leading critic of Hashimoto

Keizo Obuchi, foreign minister

Naoto Kan, leader of the Democratic party

JAPAN FOREIGN POLICY IMPLICATIONS

Bureaucrats may take control again

By Gwen Robinson in Tokyo

Japan's disgruntled voters may have rejected Ryutaro Hashimoto for his weakness in handling domestic affairs. But in international circles, Mr Hashimoto was known for strong ideas and a hands-on approach.

In a marked departure from the stiff diplomacy displayed by predecessors, Mr Hashimoto forged the kind of informal relationships with leaders which last year saw him quaff vodka and share hotspring baths with Boris Yeltsin, Russian president. As a result, Japan-Russia relations flourished and were heading toward resolution of the decades-old territorial dispute over four Russian-occupied islands north of Japan.

"Mr Hashimoto had a style of his own," said a Japanese diplomat. "He often wouldn't want the foreign ministry to handle controversial questions." An example of Mr Hashimoto's direct approach came yesterday, when he decided to call directly Bill Clinton and Jacques Chirac, the US and French presidents, to tell them he would not be visiting them as planned next week.

Will Japan's foreign policy processes change under a new premier? To an embarrassed Sergei Kiriyenko, Russia's prime minister, who yesterday became the first visitor to meet Mr Hashimoto after his resignation, the outgoing leader said his departure would "make no difference" to the progress of bilateral relations.

Indeed, a contender to replace Mr Hashimoto, is Keizo Obuchi, foreign minister, who has solidly supported some of Mr Hashimoto's diplomatic initiatives.

But Mr Obuchi has only been in his position since last year, and even if he became prime minister, policy initiatives would be likely to revert to the hands of influential foreign ministry bureaucrats, analysts say.

Controversial legislation to expand Japan's bilateral defence ties with the US – an initiative pushed by Mr Hashimoto – must still be passed in parliament. Mr Hashimoto's support for expanding defence ties was welcomed by Washington, even while US leaders criticised Tokyo's foot-dragging on banking system reform.

Mr Hashimoto also sought to upgrade Japan's frosty relations with China, one of the most awkward foreign policy issues for Tokyo and one which often draws angry reminders of Japanese wartime atrocities in China. Japanese commentators drew on Mr Clinton's recent visit to China to warn that growing Sino-US relations would undermine Japan's relations with Washington.

But this week, a discreet but important foreign policy achievement will take place in Tokyo, when senior Japanese, US, and Chinese officials and academics meet for the first time in a quasi-informal setting to discuss security issues. Japan is calling the meeting a "track two" initiative. "We don't want to scare other countries in the region with the idea we are developing a triangular security-oriented relationship," said a Japanese diplomat.

JAPAN THREE-MONTH-OLD PARTY FEEDS ON LDP UNPOPULARITY

Success surprises Democrats

By Michiyo Nakamoto

The three-month-old Democratic party was a clear victor in Sunday's upper house elections, its strong performance surprising even party leaders.

"The result shows that the people have sent a red card to the Liberal Democratic party," said Naoto Kan, Democratic party leader. While Mr Kan, one of the most popular politicians in Japan, was clearly elated by the result, he acknowledged the result represented a protest against the LDP rather than support for his own party.

Pre-election polls, which gave the DP support of only about 9 per cent, indicated that the largest opposition party is still regarded with some suspicion by the public. It represents a coalition of different political affiliations and is also plagued by internal tensions.

Nevertheless, the momentum provided by Sunday's strong showing will allow Mr Kan to rally the party as well as to take bolder measures in pressuring the ruling party on policy issues.

> **The people have sent a red card to the Liberal Democratic party**

How successfully Mr Kan performs will determine the effectiveness of the DP as an opposition force to the LDP, particularly in elections to the much more important lower house, which are due in 2000.

Mr Kan hopes to build on Sunday's election success by creating an opposition alliance modelled on Italy's Olive Tree coalition, to challenge the LDP's hold on government.

The Democratic party, with just 47 upper house seats, compared with the LDP's 102, and 92 lower house seats against the LDP's 263, is still too small to challenge the LDP on its own.

Mr Kan's ambitions for an opposition alliance received a boost at the weekend when Tetsuzo Fuwa, chairman of the Japan Communist party, indicated he was prepared to support Mr Kan's bid for the prime ministership.

The JCP also strengthened its position in the upper house by more than doubling its seats to 15. However, the hurdles to forming a broad-based opposition alliance remain high. There is strong resistance among some members of the Democratic party to joining with the Communists. Other parties too have yet to be convinced of the advantages.

The Democrats also face a delicate task putting pressure on the LDP on policy issues without alienating the public by seriously jeopardising the Japanese government's programme for economic recovery.

Public disillusionment with the LDP has given the Democratic party its biggest chance ever. Building on it will provide the toughest test of Mr Kan's political skills.

NEWS DIGEST

CHEK LAP KOK AIRPORT

Hong Kong ombudsman to launch inquiry

Hong Kong's ombudsman launched an independent inquiry yesterday into the chaos that has beset the territory's new US $20bn airport. The inquiry comes in response to rising public anger over disruptions to flights, air cargo transportation, and passenger services during the airport's first week of operation.

Andrew So, the ombudsman, said he might summon officials from the government committee responsible for the airport, which is chaired by Anson Chan, chief secretary, to give evidence. The inquiry would also determine whether anyone in the government should be held financially responsible for the disruption, he said. The government launched its own investigation last week.

Although the HK Airport Authority said yesterday that more than half of all flights were on time, the operations of the territory's largest cargo handler, Hong Kong Air Cargo Terminals (HACTL), remain at a standstill. One-fifth of the territory's exports and almost a quarter of all imports are transported by air. **Michael Lipin and Agencies**

PHILIPPINES-MALAYSIA

Bilateral trade payments deal

The Philippines and Malaysia have signed a bilateral trade payments agreement designed to reduce dependence on the dollar and reduce transaction costs.

The deal, signed by the central banks of both countries in Hong Kong at the weekend, is the first of its kind within the nine-member Association of South East Asian Nations.

Every two months, the total of imports and exports between the two countries will be netted out, with the balance payable in dollars. Trade between the two south-east Asian economies reached $1.6bn last year and has been growing at almost 35 per cent for the past three years.

Gabriel Singson, Philippine central bank governor, said the agreement was an initial step. If it proved viable, the Philippines would probably sign further bilateral arrangements with other countries. **Justin Marozzi, Manila**

KOREAN TENSION

Seoul, US agree measures

South Korea said yesterday it had agreed with the US on joint operations against any future limited provocation from North Korea. It follows the discovery of the body of a suspected North Korean spy at the weekend.

The statement said top military officials from both countries discussed joint counter-measures against the recurrence of submarine infiltrations "and other kinds of limited provocations".

A sub was found three weeks ago partially submerged about 11 miles from the east coast town of Sokcho about 60 miles north of Donghae – after it became entangled in fishing nets. Nine bullet-riddled bodies were discovered inside.

South Korean troops were searching for North Korean spies on the east coast after the body of a suspected spy was found on a beach on Sunday at Donghae, 55 miles south of the demilitarised zone. **Reuters, Seoul**

India 'faces big fall in net capital inflows'

By Mark Nicholson in New Delhi

India faces a sharp fall in net capital inflows this year and may have to draw down currency reserves, according to a leading independent Indian research agency. The Centre for Monitoring Indian Economy (CMIE) blames sanctions following India's nuclear tests, political uncertainty, and investor pessimism towards both India and Asia.

In the first independent assessment of the potential economic fall-out from India's nuclear tests, the CMIE estimates that sanctions and negative sentiment will cut net inflows to $1bn for the year, compared with flows of $7.7bn last year and $9.3bn a year earlier. The estimates embrace official and private investment flows.

The agency concludes that India may be forced to draw down reserves by $5bn over the year, depending on trade performance, possibly reducing them to $21bn by next March.

Its estimates are based on assumptions that foreign direct investment will match last year's $3bn, with foreign exchange deposits from "non-resident Indians" remaining firm at $1.5bn.

However, the agency believes sanctions will lead to a net foreign assistance outflow of $1bn as aid repayments exceed receipts, while forecasting sharp falls in foreign portfolio investment and a rise in debt servicing over the year.

Foreign institutional investors, which have withdrawn more than $400m from Indian debt and equity markets since the country's nuclear tests in May, are expected to withdraw $1bn over the year. IMF and other official debt repayments will account for a further $1bn, while repayment of commercial foreign debt will result in a net outflow of $500m.

"There is no immediate payments crisis on the horizon," said Mahesh Vyas, CMIE executive director in Bombay. "But this is not what the economy should be doing."

The Indian government this week announced terms for a series of "resurgence bonds" available to non-resident Indians. The issue in August is expected to raise $2bn in foreign exchange.

CMIE estimates also suggest India may cut its trade deficit this year, assuming import and export growth in dollar terms of 5 per cent. This would cut the trade gap for 1998-99 by 7.4 per cent on last year to $6.3bn.

However, most recent official figures already suggest the CMIE's trade figure estimates are optimistic. Exports for the first two months of this fiscal year were more than 7 per cent lower against the corresponding period last year.

"Certainly the underpinnings on the external side are fragile," said Mr Vyas.

Overall the CMIE foresees a disappointing year for the domestic economy, suggesting gross domestic product growth of 4.5-5 per cent, against government expectations of 6.5-7 per cent. It expects a poor agricultural performance over the year and a further dip in already sluggish industrial growth, to 4.5 per cent against 6.6 last year.

China breaks ground with Taiwan visit

By James Kynge in Beijing

China was preparing yesterday to allow its first minister to visit Taiwan since the end of the Chinese civil war in 1949, to emphasise a message that Taipei should hasten progress towards political negotiations with Beijing.

Zhu Lilan, minister of science and technology, was due to travel today to the island that Beijing regards as a renegade province to attend a seminar, officials said. She is to spend eight days in Taiwan with a 14-member delegation and participate in "unofficial" meetings.

The visit has raised some hope for a thaw in tense relations across the Taiwan strait. But it was far from certain that Taipei would agree to Beijing's request to hold procedural talks aimed at eventually evolving into discussions on reunification.

"Technical" talks on issues such as the repatriation of hijackers and fishing disputes were broken off by Beijing in 1995 in protest at a visit by Lee Teng-hui, Taiwan's president, to his alma mater in the US, Cornell University. Chinese missile tests near Taiwan in 1996 were meant as a warning that Beijing could attack the island if it ever declared independence.

But this time, Beijing is resolved against resuming any "technical" contacts, which it believes provided Taipei with ample scope to avoid broaching any political issues. Sensing swelling separatist sentiment in Taiwan, Beijing recently decided to allow the US a role in persuading Taipei to come to the negotiating table.

> **China wants to push Taiwan into hastening progress towards political talks**

Several informal visits by influential former US administration officials has convinced Taipei to show more willingness to improve relations with China.

Tang Shubei, vice-president of China's Association for Relations across the Taiwan Straits, said that President Bill Clinton's visit to China this month had provided "favourable conditions for the development of cross-strait relations". Mr Clinton made the first statement by a US president of the "three no's" – no support for Taiwan independence, no support for "one-China, one-Taiwan" and no support for Taipei's membership in organisations requiring sovereignty.

But barriers to genuine rapprochement between Taipei and Beijing remain. Taiwan wants Beijing to recognise that it is a "political entity" separate from the mainland, but China flatly rejects this.

From the US perspective, too, there are problems. Mr Clinton has drawn criticism in the US for his "three no's" statement, and the US Senate last week voted 92-0 for a resolution noting the "long, peaceful, friendly relationship with Taiwan".

هكذا من الأصل

هكذا من الأصل

Bid to break encryption stalemate

By Louise Kehoe and Roger Taylor in San Francisco

Leading US high technology companies have put forward an initiative to break a stalemate with the US government over export controls on the technology used to scramble electronic messages.

The new approach involves giving network administrators the ability to obtain a decrypted version of a message, should they be required to do so by a court.

Government agencies, including the Federal Bureau of Investigation and the National Security Agency, have demanded export restrictions on encryption, which the Commerce Department has enforced, on the grounds that the message scrambling technology may be used to mask criminal or terrorist activities.

The computer and software industries maintain that encryption is essential for electronic commerce, where it is used to protect financial transactions, and to protect sensitive information transmitted over the internet.

So far, efforts to reach a compromise have floundered with the government achieving only muted industry support for so-called "key recovery" systems in which the secret code needed to unlock a scrambled message would be lodged with a trusted third party.

Now 13 companies - including the leading producers of data networking equipment, Ascend, Bay Networks, Cisco Systems and 3Com as well as software leaders Microsoft, Netscape Communications and Novell, computer security specialists Network Associates, Red-Creek Communications, Secure Computing, as well as Sun Microsystems, Hewlett-Packard and Intel – have thrown their weight behind

Chambers: safety important

a new compromise called a private doorbell.

Under the scheme, anyone lawfully seeking to unscramble messages would not have direct access to the code keys, but would first have to serve a court order on the network operators who would be able selectively to decode the information.

Limits on the development and export of encryption technology have been seen as a serious barrier to the development of electronic commerce networks.

"As the internet continues to drive economic and job opportunities worldwide, it's important that customers feel safe doing business on the web," said John Chambers, president and CEO of Cisco Systems, the market leader in data networking equipment. The company said customers had emphatically refused to buy products that encrypt data if they also "facilitate unauthorised, covert surveillance".

One limitation of the new approach is that it would work where data was sent over networks run by independent operators – not where data was sent between directly linked computers managed by the same people creating and encoding the data.

GM to recall nearly 1m cars

By Nikki Tait in Chicago and agencies

General Motors, the largest of the US carmakers where production has been largely shut down by strikes at two parts plants in Michigan, is to recall nearly 1m cars because of problems with air bags.

The recall primarily covers Chevrolet Cavaliers and Pontiac Sunfires, but also a smaller number of Cadillac DeVille, Concours, Eldorado and Seville cars. The problems centre around faulty deployment of the air bags, and will require software adjustments. Air bags have been a subject of some controversy – killing a number of children in recent years, although saving many more lives, according to data from the National Highway Traffic Safety Administration. Carmakers have generally responded by provided "on-off" switches for most models.

Meanwhile, GM – which, under normal circumstances, would have restarted production yesterday after its traditional two week summer shutdown – said yesterday that 166,900 workers had now been laid off because of the two strikes in Flint. The prospect of any early settlement evaporated on Sunday night, when GM's head negotiator, Mr Gerald Knechtel, said that he was returning to Detroit.

Last week, the chances of a resolution had seemed brighter as talks with the United Auto Workers union intensified, and began to last longer each day.

Mr Knechtel's departure from face-to-face talks, however, would seem to indicate that the disputes could last into August – as many on the union side initially predicted. Shares in GM – which will report its second quarter earnings today – slumped $2 1/16 to $68¾ yesterday. The situation for GM will become graver as dealers run low on stocks.

Adult movie makers bare all their wares

The big studios and TV networks tout family values and video fare while porn-makers flash their family jewels and much else besides at Las Vegas' annual video convention

Letter from Los Angeles
Christopher Parkes

The clapper-boards and bedsprings of the San Fernando Valley fell silent last week as the film-makers Los Angeles tries to ignore left town to expose themselves to men in suits and other people who wear clothes to work.

The so-called "adult" movie producers and actors from this sunny inland enclave turned out in full force and skimpy finery to peddle their wares and strut their stuff among 10,000 video store operators at the annual convention of the Video Software Dealers Association in Las Vegas.

This extraordinary bazaar is one of the busiest sales and talking shops in the Nevada city's calendar. It combines elements of straight film business, hard-talking business seminars, and the flaunting of flesh in a charivari of cheerful carnality.

On one side of the partitioning in the convention hall, the big studios and television networks tout their family values and video fare for the retail and rental operators who generate about $8bn a year in revenues.

On the other, the porn-makers flash their family jewels and much else besides in booths bedecked with blocks, tackle and rigging enough to fit out the Fifth Fleet. On the evidence available, bondage is still big business in the back rooms of the nation's video stores. Rubber and silicone in alarming configurations, sizes and locations is ever popular in the "specialist" outlets which collect most of the estimated $2.5bn in domestic revenues generated annually by the men and women trained at the school of horizontal acting.

Beyond the partition last week, the queues of businessmen and the occasional woman waiting to be photographed in the company of ladies in tattoos and body makeup, and studs in studs and leather marked where the line blurs between software and hardcore.

The distinction appears to have been obliterated altogether in the San Fernando Valley, which is currently debating whether it can afford to split itself off from LA and become a self-financed city in its own right. For valleyites, adult entertainment is a big and important business.

Nationwide, the people who give erotica a bad name churn out 7,000 X-rated videos and films a year. About 70 per cent are made in the valley, at a pace which leaves Hollywood's yearly output of about 500 features in the shade.

They use recyclable props and scripts the very model of economy and post-production work is largely limited to dubbing soundtracks with huffing, puffing, squeaks and grunts.

The industry has its own film festivals and awards ceremonies, has developed custom technologies such as the C-light (don't ask). As last year's hit Hollywood production of *Boogie Nights* demonstrated, the porn business is as much a legitimate subject for film makers as romantic comedy and cops and robbers.

It has even started developing symptoms of a code of conduct – a social conscience, perhaps. Admittedly, the move was motivated by self interest following the HIV-positive diagnoses of three actresses, but a recent agreement between leading producers to insist that condoms will be used marked something of a turning point.

Although gay porn makers have long insisted on such protections, the heterosexual branch has resisted on the grounds that the French letter has no place in the average sex fantasy.

But the ascent of women in the industry has encouraged change. Shane Enterprises, one of several leading companies run by former actresses, elected unilaterally to make condom-only videos early this year when it became clear that the "mandatory" monthly Aids test for actors was inefficient.

Under pressure from performers, other producers joined in more recently and, in a memorable declaration, proclaimed the rubber *de rigeur*, and the sex industry's equivalent of seat belts and air bags.

INTERNET SERVICES E-THE PEOPLE HOPES TO HELP PUBLIC FIND THE RIGHT TARGET FOR THEIR COMPLAINTS

Web site aims to cash in on politics

By Roger Taylor in San Francisco

Politics has become the latest area to attract US entrepreneurs hoping to make a fortune from the internet boom.

E-The People, (*www.e-the-people.com*) which is to be launched on August 1 in association with over 30 US newspapers, aims to make complaining a leisure activity.

The internet site, which is built around a database of 140,000 federal, state and local politicians, lets users search for the right person to send views on any particular subject. It then delivers a message to that person by e-mail or fax.

The new site will challenge political internet services such as Capweb, (*www.capweb.net*), which lists US congressmen, together with e-mail addresses and background data. Capweb is run by Net Capitol, an internet consultancy for political organisations.

Unlike most political web sites, E-The People is not connected to a political organisation. The venture, devised by Alex Sheshunoff, a 24-year-old technology entrepreneur, has been financed by private backers.

Mr Sheshunoff hopes to emulate the success of other internet media sites such as SportsLine, the sports information service, which is currently valued at over $400m. He wants to attract a chunk of the millions spent on US political advertising.

Newspapers including the New York Daily News and the Portland Oregonian are planning links with the web site, which has the potential to be used to co-ordinate local campaigns or conduct reader polls. It has also attracted interest from campaigning organisations which believe they can use it to set up petitions and alert relevant politicians every time a given number of people sign. Several lobbying groups such as Pax, the gun control group, are planning to use the service.

Internet media sites such as Yahoo, the popular internet directory, or SportsLine, are currently enjoying astonishingly high ratings on US stock markets. Mr Sheshunoff would not comment on whether he planned to cash in on the boom by taking his company to the market.

Jamil Mahuad: Harvard-educated mayor on the way to the top AP

Mahuad heads for narrow Ecuador win

By Justine Newsome in Quito

Jamil Mahuad, candidate of the centre-right Popular Democracy (DP) party, won a narrow victory over multi-millionaire business Alvaro Noboa in Ecuador's presidential elections on Sunday, according to preliminary results. Mr Mahuad, who will stand down as mayor of Quito and is expected to take up the presidency on August 10, received an estimated 51 per cent of the vote.

The relative success of Mr Noboa, a novice politician who came just a little over 100,000 votes behind Mr Mahuad, was a signal that the country's coastal people were ready to claim their "right", said Leon Febres Cordero, mayor of the commercial port of Guayaquil. During the campaign Mr Noboa exploited regional tensions between Ecuador's highlands, Mr Mahuad's stronghold, and the coast. Mr Noboa gained an estimated 65 per cent of voters on the coast, home to half the electorate.

Official results will be released tomorrow, although the indications in Mr Mahuad's favour are from computer projections based on actual polling booth counts. Mr Noboa said his own private poll showed a narrow victory for him.

Reconstruction of the coast, where the El Niño weather phenomenon has caused over $2bn worth of damage in destruction of roads, bridges and agriculture, and left more than 20,000 people homeless, will be a top priority for the new government. A study of road damage has identified the need for $800m of international funding, said Mr Mahuad. A further $800m will be raised from a bond issue and a small contribution from the state budget.

'Our proposal is to work on education and health'

The effectiveness of Mr Noboa's campaign, which gave or promised free medicine, food and cheap housing to Ecuador's poor, has highlighted the urgency of improving basic services and stimulating faster economic growth.

"We are turning our government proposal in a totally social direction. The problem of poverty is the country's greatest problem. Our proposal is to work on education and health," said Mr Mahuad, who has pledged to create 900,000 jobs.

Although growth in gross domestic product could be negative this year and inflation around 40 per cent, Mr Mahuad aspired to average annual growth of 5 per cent and inflation below 10 per cent by the end of his four year term.

After years of policy changes and postponements in sectors such as oil, telecommunications and electricity, Ecuador has been left at the tail end of Latin America's economic modernisation.

"We must bring foreign investment through clear rules and judicial security. We will have a government beyond any doubt in matters of corruption. I believe we can have the best human team in terms of honesty and training," said Mr Mahuad.

"There is a chance for the country to change and this must be led by the private sector. The state does not have the economic resources for investment or maintenance," said Joaquín Zevallos, president of Guayaquil's chamber of commerce.

WELLCOME TRUST WORLD'S BIGGEST CHARITY TO BACK INCREASE BY GIVING $660m TO MODERNISE UNIVERSITY LABORATORIES

State budget for science to rise by 15%

By David Wighton, David Pilling and Simon Targett

Science and engineering research are to receive an extra £1.1bn ($1.8bn) over the next three years thanks to a pioneering joint initiative between the government and the Wellcome Trust, the world's biggest research charity.

Margaret Beckett, the chief industry minister, yesterday said the government science budget would rise almost 15 per cent in real terms to £1.67bn over the next three years. Wellcome Trust will contribute a further £400m for upgrading university laboratories and "other essential infrastructural needs".

Mrs Beckett said the cash would transform the UK's science infrastructure. "This major injection of funds reverses the decline that our predecessors allowed," she said. Colleagues of Mrs Beckett said there was no question of money being transferred from higher education funding or the rest of the industry department. Both are expected to see increases when Gordon Brown, chancellor of the exchequer, announces the results of the government's comprehensive spending review today.

Industry and university representatives yesterday welcomed the research decision, which went beyond what many had been expecting.

John Mulvey, secretary of Save British Science, the lobby group, said: "We are very pleased. On the face of it, the amount for next year more than brings us back to 1996-97 levels after a period of cuts ... If we can keep this rate up we can match Japan and the US."

Britain had fallen behind in public funding of university research, coming 16th in a league of 19 OECD countries, he said. Measured in terms of spending per head of the labour force, Germany, France and the US all devoted nearly twice as much as Britain.

Two of Britain's biggest pharmaceutical companies also applauded the announcement. SmithKline Beecham said it had complained for some time of falling budgets.

Glaxo-Wellcome said the new cash could reverse a "very serious" shortfall.

But Professor Luke Georghiou, director of Manchester University's Policy Research in Engineering, Science and Technology group, warned: "It will take universities 10 years to get back to where they should have been without the funding cuts."

"Some of the universities' laboratories can best be described as antiquated," he said. "There are PhD students who are still working with equipment calibrated in Imperial measurements. There are academics working with instruments which are one generation behind those used by their colleagues in the US."

Under the partnership scheme, the DTI and Wellcome will each contribute £300m to build new university laboratories and refurbish and re-equip existing facilities.

Wellcome will also put £100m into a synchrotron high intensity X-ray machine at the research councils' central Daresbury Laboratory, in north-west England. It was needed to keep the UK at the forefront of genetic research, said Michael Dexter, director of the Wellcome Trust.

Life sciences will be a priority area for the £400m of extra money to be given to research councils over the next three years.

Dr Dexter said the Wellcome Trust had sought assurances from the government that its investment would not merely substitute public funds. "I am delighted that the government was able to make that commitment," he said.

Aid cash may be seen as snub to Foreign Office

By Liam Halligan, Political Correspondent

The international development department is set to receive around £500m ($825m) of additional cash over the next three years, in a move which may be seen as a setback for Robin Cook, the foreign secretary.

The government's comprehensive spending review, to be unveiled today by Gordon Brown, chancellor of the exchequer, will reveal the boost to the department's £3.2bn annual budget.

The extra aid spending will enhance the chancellor's credentials among Labour leftwingers – many of whom were furious at his decision to peg the minimum wage at £3.60. It will go some way to helping Labour fulfil its manifesto pledge to increase aid spending – from the 1997 level of 0.26 per cent of GDP, to the United Nations' target of 0.7 per cent.

The increase is separate from any money the international development department might raise from the proposed partial sale of the Commonwealth Development Corporation – the 50-year-old body designed to stimulate investment in the world's poorest countries.

The favour shown by Mr Brown towards the department, headed by Clare Short, will be portrayed by Mr Cook's enemies as a blow for him.

The Foreign Office, whose budgets are likely to have come under pressure in the review, included in its submission to the chancellor proposals to annex part of the "nonpoverty" brief of Ms Short's department.

"Robin's plan flopped," said an official. "Gordon was not interested in helping him undermine Clare."

Relations between Ms Short and Mr Cook have previously been uneasy – particularly during last summer's Montserrat volcano crisis, when Ms Short said the relationship between the development department and the Foreign Office meant she had "responsibility without power".

The Treasury has confirmed it is considering Ms Short's request to create a new tax status for the commonwealth development body should its ownership be reformed under a public-private partnership, increasing the likelihood of it remaining onshore for tax purposes.

Ms Short's department is hoping that legislation allowing the sale will be included in this autumn's parliamentary programme.

Puttnam to bridge the science-arts divide

A government-backed organisation to bridge the gap between science and the arts will be "a national bank for talent", Chris Smith, chief culture minister, said yesterday after announcing that the body's chairman would be Lord Puttnam, better known as David Puttnam, the film maker. The National Endowment for Science, Technology and the Arts will receive a £200m ($330m) endowment from National Lottery funds. Lord Puttnam (seated in picture with Mr Smith at the British Library) said Nesta planned to re-establish Britain as the world's "most prolific ideas factory". "In today's knowledge economy," he added, "where bright ideas and innovation are increasingly the currency that really counts, Nesta is a model . . . by bridging the gulf that has traditionally separated science and technology from the arts, it will be a magnet for fresh thinking." Mr Smith referred to a Japanese government report showing that some 40 per cent of the inventions that had fuelled the country's success since 1945 originated in Britain. Lord Puttnam said the UK was a leader in video game creation but won little revenue from the industry.

Picture Ashley Ashwood

Chemicals producers try to head off EU curbs

By Jenny Luesby in London

Chemicals producers are to launch a drive to identify and restrict dangerous chemicals in an effort to head off threatened European Union legislation.

The initiative follows a six-year delay in implementing an EU programme to test and control manufactured chemicals.

The industry is to address public fears over safety through Confidence in Chemicals, launched at a Chemicals Industry Association meeting last week.

The change of strategy comes amid mounting concern over the safety of phthalate plasticisers used in soft PVC toys, organophosphates in agricultural chemicals and "gender-bending" chemicals held responsible for a range of human fertility disorders.

Emma Bonino, the EU consumer protection commissioner, is lobbying for a one-off phase-out of soft PVC toys on safety grounds. But some member states want action where chemicals pose even a potential risk. This reflects mounting frustration at the lack of progress in assessing and controlling chemical products.

The regulatory framework established in 1992 to test and control potentially hazardous chemicals has not yet produced a result. The commission has identified 120 priority chemicals but none has emerged from the testing process.

The CIA concedes that chemical producers given the task of testing have failed to make it a priority. It now intends to speed up the process and promises openness over the test results.

The voluntary initiative is not the industry's first. It follows the long-standing Responsible Care programme which aims to improve the safety of chemical companies' manufacturing operations.

Like Responsible Care, the new programme will include a commitment that individual producers will sign. This will cover monitoring of products and pledges of better labelling. The industry set its own goals for Responsible Care but it will draw up the targets for Confidence in Chemicals in consultation with customers, regulators and pressure groups.

OBITUARY OCTAV BOTNAR, ONE OF THE EARLIEST IMPORTERS OF JAPANESE VEHICLES TO BRITAIN

Fugitive who made fortune from Nissan cars

Octav Botnar, who has died aged 84, began one of the more extraordinary careers in modern British business while he was in his late 50s. He spent the final years of his life in exile, seeking to escape the clutches of the Inland Revenue, which wanted to prosecute him over his alleged role in the UK's biggest tax fraud.

The tax authority's arrest warrant was never served, as Botnar – who built a £1.5bn a year business in the 1970s and 1980s from importing Nissan cars to the UK – showed little enthusiasm for leaving his villa in Switzerland. With his health failing, the Revenue reached a £59m settlement with him in 1996.

Botnar took over the exclusive franchise for importing and distributing Nissans in the early 1970s, when Japanese cars were still regarded as a joke by many in Europe and North America. Botnar built Nissan UK into the biggest Japanese car franchise in Britain, eventually capturing 6 per cent of the UK new car market, and played an influential role in persuading Nissan Motor, Japan's second biggest carmaker, to choose England as the location for the first plant built in Europe by a Japanese producer. Over 21 years he built businesses with an annual turnover of £1.5bn and annual pre-tax profits of close to £150m. But the profits were understated and two of Botnar's closest associates were jailed in 1993 for their part in the fraud.

He built a web of trusts obscuring the ultimate ownership of his operations in entities registered in Panama and the Bahamas which excited the interest of a Revenue keen to tax the sizeable dividend flows to the trusts. Botnar remained a shadowy figure shunning publicity and utterly reticent about his past life. At the same time he poured millions of pounds into charities and other causes. He founded the Camelia Botnar Foundation in 1978 to help deprived young people in memory of his daughter, who had died in a car crash.

For nearly two decades, it appeared that Botnar could do little wrong. But Nissan Motor announced in 1990 that "the basis of trust essential to a trading relationship was no longer present between the two companies". Botnar was by then fighting the Inland Revenue, which had raided the Nissan UK head offices in southern England.

A German national by passport, Botnar arrived in Britain in 1967 from the motor business in West Germany, to reorganise the UK concession of NSU.

LONDON UNDERGROUND CHIEF SEEKS TO CUT DELAY IN PRIVATE FINANCE PLAN

Profit deals may push rail upgrade

By Charles Batchelor, Transport Correspondent

Private-sector companies that take over management of the London Underground railway's tracks, stations and signalling could be offered profit or revenue-sharing deals to finance improvements.

Denis Tunnicliffe, chief executive, said London Underground was looking at ways of rewarding private contractors for undertaking upgrading projects. But it realised that a special regime would be needed to achieve meaningful upgrading alongside routine maintenance.

"We see this as a different challenge," he said. "There must be a mechanism to facilitate quite significant changes. We will have to find ways of measuring improvements and rewarding those improvements."

One way would be to calculate the value to passengers of upgrading stations. A share of this additional value would be offered to the infrastructure company in return for its making the investment.

The Underground is reviewing ways of involving private-sector companies in helping to finance and manage its activities. Train operations will remain in public hands but infrastructure concessions will be offered to between one and three private-sector groups.

The Underground will explain these proposals to more than 300 representatives of engineering, construction and financial groups at a conference to be held in London on Thursday.

The involvement of the private sector in devising the infrastructure concessions is intended to cut the delays and expense experienced with old-style private finance initiative schemes.

The Underground is making preparations to divide its network into two or three separate concessions even though its own preference and that of the government is for one. Mr Tunnicliffe said: "Our key concern is that the concessions may be too small."

Second strike over network's future

A 24-hour strike by London Underground workers had a patchy impact yesterday, with some lines running normally and others operating with fewer than half the usual service, Andrew Bolger writes. The strike was the second by the RMT trade union, which is seeking assurances about the effect on working conditions of the government's proposed partial privatisation of the network. Environmental campaigners from Reclaim the Streets added their support to the rail workers. Three women climbed on to a train with a protest banner.

MILITARY RECONNAISSANCE PROJECT TO ENSURE DATA FOR 'DIGITAL BATTLEFIELD'

More research on robot planes

By Alexander Nicoll, Defence Correspondent

Britain is to investigate widening its use of unmanned aerial reconnaissance vehicles as a result of last week's strategic defence review.

The research is part of an attempt to ensure that troops have as much information as affordable technology permits – essential in the high-technology "digital battlefield" of the future.

The defence review said an intelligence, surveillance, target acquisition and reconnaissance capability was "not only vital for combat operations but also increasingly important for many peace support operations". It noted that new methods of gathering information through long-range sensors were becoming available.

The review endorsed projects already under way in this field, including the Cobra artillery locating radar and Tracer stealthy reconnaissance vehicles being developed jointly with the US.

The defence ministry is to carry out three studies into unmanned aerial vehicles that could augment battlefield reconnaissance information provided by Tracer vehicles and data already available from sources such as Awacs surveillance aircraft.

The first study – at a relatively advanced stage – is into a short-range UAV to be used in parallel with Tracer, itself designed to operate undetected hundreds of miles behind enemy lines. The UAV is likely to be a small, cheap device that could enhance data gathered by Tracer about specific targets, industrialists believe.

The second is a feasibility study of a UAV that could provide what officials described as "deeper coverage". Finally, research will be carried out into a longer-range UAV. The aim is to have a mix of systems to meet battlefield commanders' needs, more advanced than the Phoenix drone the UK already uses.

The defence ministry said it was discussing with Washington possible collaboration. The US already has programmes in this field and used UAVs for reconnaissance in the Korean war.

Such projects fit with the desire of Nato countries to reduce casualties and save money. UAVs can be cheaper than manned aircraft because they do not have to be designed with a view to pilot safety.

The US has in train more ambitious studies of UAVs, which would replace combat aircraft rather than being used for passive reconnaissance. Britain's review also said it was looking at replacements for the long-range Tornado GR4 bomber and that "in addition to fast jet aircraft, we will consider other possible solutions – for example involving stand-off missiles or unmanned aircraft".

NEWS DIGEST

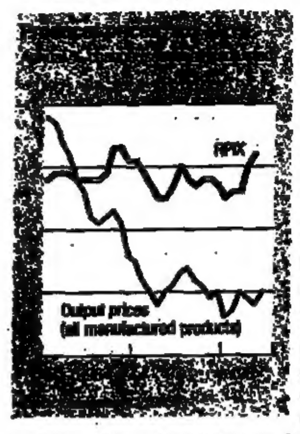
INWARD INVESTMENT

IBM chooses Scotland for European call centre

International Business Machines plans a multilingual direct marketing call centre in central Scotland to give information on IBM products to callers from 13 European countries. The centre, to be sited near IBM's computer factory at Greenock, would create 500 jobs. The company announced in 1996 that it was setting up a customer support call centre in Dublin, Republic of Ireland, employing 750 people and plans to open one in Northern Ireland next year. The Greenock plant, opened in 1951, employs 3,300 people and is the only IBM location where manufacturing is located alongside product design and delivery. It supplies personal computers for 22 languages in Europe, the Middle East and Africa. Brian Wilson, Scottish industry minister, said IBM had chosen to locate the centre at Greenock in preference to other European locations partly because of the skilled workforce available. The call centre industry in Scotland already employs more than 16,000 people. James Buxton, Edinburgh

THE ECONOMY

World Cup erodes retail sales



The British Retail Consortium's latest sales monitor, published today, shows a 0.1 per cent fall in like-for-like sales last month compared with a year earlier – the first such decline recorded since March 1995. "The appalling weather affected sales badly in some sectors, and the World Cup kept viewers at home on match days," said Andrew Higginson, chairman of the consortium's economic affairs committee. "This move into negative territory confirms the slowdown in sales that we have seen for some time." The consortium also said the series of interest rate increases since the same period last year continued to hurt consumer confidence. The decline marks a sharp turn-around from consumer spending during May, when retail sales jumped by 3.7 per cent year-on-year, according to the consortium's survey of its members.

Other economic figures published yesterday showed few signs of inflation pressures emerging from factory gates. The price of goods last month charged by manufacturers rose at an annual rate of 1 per cent. Richard Adams, London

FUND MANAGERS

Poll shows optimism ebbing

Just 7 per cent of UK fund managers expect the economy to be stronger in a year, the lowest level of optimism in a monthly poll since 1990. At the same time, the average forecast for gross domestic product growth in 1999 has been revised down to 1.4 per cent from 1.8 per cent in June, according to a survey by Gallup, the market researchers, and commissioned by Merrill Lynch, the US investment bank. Trevor Greetham, global strategist at Merrill Lynch, said: "Fund managers are forecasting a soft landing, but fear a recession."

Optimism among UK fund managers was the lowest since 1990, a year of recession in the UK. The pessimism appeared to be partly prompted by last month's decision by the Bank of England, the UK central bank, to raise interest rates, a move which confounded fund managers. The monthly poll questions 257 institutions with funds totalling well over $6bn. Jane Martinson, London

See Japan equities in International Companies

AIRPORTS

Passengers face fewer delays

Passengers faced fewer delays at leading UK airports in the first part of the year, the Civil Aviation Authority reported yesterday. The average delay to holiday flights at 10 main airports in the first three months of 1998 was 30 minutes, compared with 40 minutes for the January-March 1997 period. Delays to scheduled services fell from 13 minutes in the first quarter of last year to 10 minutes this year. The number of scheduled flights on time increased from 75 per cent in January-March 1997 to 78 per cent in January-March 1998. All figures relate to flights in and out of Heathrow, Gatwick, Stansted, Luton, London City, Manchester, Birmingham, Glasgow, Edinburgh and Newcastle upon Tyne.

INTERNET BOOK SALES

Market value put at $46m

The fast-growing internet book market could already be worth as much as £28m ($46m) a year in the UK and may be valued at up to £89m by 2002. Internet sales will contribute towards a steady increase in consumer book sales of 2.5 per cent in real terms from £1.86bn last year to £1.91bn in 2002, according to a study compiled by Market Tracking International, the research consultancy. The report, published this week to coincide with the start of the London International Bookfair, also forecasts robust growth for educational books. Sales are expected to rise by 22 per cent in real terms over the same period, to reach £268m in 2002. The industry has struggled to adjust to the new era of discounting and now faces new challenges, notably the arrival of US-style book superstores. Borders, one of the most powerful US book retailers, opens the first UK version of its US superstores on London's Oxford Street next month. Alice Rawsthorn, London

هكذا من الاصل

صورة من الاصل

BUSINESS OPPORTUNITIES

READERS ARE RECOMMENDED TO SEEK APPROPRIATE PROFESSIONAL ADVICE BEFORE ENTERING INTO COMMITMENTS

DILTE a.s.

Established Leasing Company In Prague, Czech Republic

The company, leasing dial equipment, seeks interested partners for acquisition or expansion opportunities.

We Invite Your Enquiries About Business Opportunities

Further information on fax: (00 420 2) 573 20 871

PUB ESTATE

Management Services – Commer Group is one of the UK's leading specialist providers business management services for property owners in the leisure industry.

Major new investment has increased substantially our capacity to run public houses, we are now looking to meet the needs of additional clients who wish to outsource some or all operational management.

Joint Ventures – We would also be interested in joint ventures in leased or tenanted pub estates, and are prepared to make available an equity investment of up to £5m for suitable opportunities.

Contact Jim W., Chairman, Commer Group, Station Road, Tadcaster, North Yorkshire LS24 9JF Tel: 01937 833 Fax: 01937 834236 E-mail: jim.w@commer.co.uk

COMMER

Access Screened Investment Opportunities

Multiplex Cinema	400k
Independent Record Production	50k
New York Style Deli	120k
Solar Panel	150k
New London Venue	1.4m
Children's Wildlife Magazine	200k
Country Info Databases	250k
New Authors Book Club	200k
Established Magazine Title	200k

Venture Capital Report publishes screened equity investment opportunities. Detailed, objective reporting on only the best projects saves you time and money. Contact entrepreneurs directly. Attend regular investment presentations.

Call VCR on 01865 784411 to sign up for a trial subscription

OFFSHORE COMPANIES TRUSTS 2ND PASSPORTS

For brochure and immediate service contact: Prymas Zla, Director

INTERNATIONAL COMPANY SERVICES (UK) LIMITED

Standbrook House, 2-5 Old Bond St., London, W1X 3TB.

Tel: +44 171 493 4244

Fax: +44 171 491 0605

E-Mail: uk-info@icsl.com

http://www.icsl.com

MBi

We represent some of Britain's best directors, looking to lead management buy-in's of owner managed or family businesses worth £1m to £25m. If you're an MBI executive or a retiring company owner, we'd like to hear from you. Call Jonathan Hick on 0870 000 0020 or write to 7 Tolbeck Street, Mayfair, W1Y 7RJ.

THE MBi REGISTER

LONDON - LEEDS - GLASGOW

For Mergers and Acquisitions In Global Transport

TRIANGLE

Consultancy, Recruitment, Mergers & Acquisitions

Jim Cleary

Triangle Management Services Ltd

10 Penn Road, Beaconsfield

Bucks HP9 2LH.UK

Tel: +44 (0) 1494 678000

Fax: +44 (0) 1494 678888

Investment Opportunity

INVESTMENT OPPORTUNITY

DEVON - SOUTH HAMS

Exe Cave Visitor Enterprise

Museum, Visitor Shop, Car Park, Playground.

Extensive of woodland and Old Quarry with further enterprises subject to obtaining suitable consents.

Long lease available on terms to be agreed.

GREGG KENNEDY DREW

Tel: 01608 810335

Management Buy-Out

What is your company worth?

PC spreadsheet valuation model, as used by venture capitalists. £49.95 + VAT.

For further details contact:

Equity Ventures Limited

21 Grosvenor Street, London W1X 9FE

Tel: 0171-917 9611 Fax: 0171-917 6002

Website: http://www.eventures.demon.co.uk

Regulated by the Securities and Futures Authority

INVESTMENT OPPORTUNITY

£500,000 sought for environmental Co with exciting waste reduction and recycling products selling to UK local authorities and in Canada.

OFEX quoted

Tel: 01494-565596

VA Corporate Finance

Authorised by the Institute of Chartered Accountants in England and Wales to carry on Investment Business

COMPUTER SOFTWARE COMPANY

requires £150,000 additional short term Capital.

£250,000 already invested in unique PC product.

Substantial profit share available.

For full details call 01672 516639

BUSINESSES WANTED

Clothing Agent Wanted

Hong Kong based high quality clothing manufacturer with factory in CHINA and CAMBODIA wishes to appoint a Dynamic Agent to represent us in U.K. Preference will be given to the Person/Company who possessed excellent connection with local Wholesalers/ Importers/Dept. Stores etc.

Interested party please send fax to: 852-23545788

We would be pleased to receive instructions from companies seeking to expand by acquisition of businesses with a minimum turnover of £2m.

We are success driven remunerated only on completion.

UZMG

22 High Street Sutton Coldfield West Midlands B72 1UX

Tel: 0800 783 3863 International: +44 121 456 4946

Fax: 0121 456 4923 E-mail: uzmg@btinternet.com

Precision Engineering Manufacturing

UK quoted PLC seeks additional businesses in £1-£4m t/o range.

Must have quality products as demanded by Automotive, Appliance, Electronics or similar industries.

Must have good margins and growth/export potential with the right resources.

Box B5971 Financial Times One Southwark Bridge London SE1 9HL

PUBLIC LIMITED COMPANIES

Have you a non core business in manufacturing which is not performing or even loss making which you wish to sell.

Subject to criteria size is no deterrent.

We can give reference that we act quickly.

Call Telephone No 01675 465585 business hours

Distributors wanted

A German Co. who specializes in educational projects requires U.K. distributors for their products e.g. electronical projects, wooden projects, solar projects, arts and crafts and many more, our catalogue consist of more than 7000 articles.

For further information contact: Miss Engel by Fax: +49 9334 1387 Germany A.H. Tel (0) 9334 8179

US Public Shell ready for NASDAQ listing, ready to acquire UK businesses.

Fax Details to: 0181 429 7339

AUCTIONS

On July 31, 1998 from 12.00 a.m.

A six storey office building with 5 500 m² available space in the 12th district, Nagy Jenő u. 5, in Budapest will be put up for auction.

Vendor: Christian Democratic People's Party, H-1126 Budapest, Nagy Jenő u. 5.

Agent: NH Consult Kft, H-1077 Budapest, Jósika u. 24.

Enquiries can be made and written information obtained from either the headquarters of the Christian Democratic People's Party (H-1126 Budapest, Nagy Jenő u. 5. Phone: +361-201-8389)

or

on the following telephone service in English on Tuesdays and Thursdays between 8.00 and 12.00 a.m.

Contact: Mr. Attila Lévai Phone: +36-23-342-198

MACHINERY

DT INDUSTRIES FOREIGN SALES CORPORATION

Representing DT Industries, Inc., Assembly Technology & Test, Inc., Mid-West Automation Systems, Inc., Detroit Tool and Engineering Co., Hansford Manufacturing Company, Advanced Assembly Automation, Inc., Assembly Machines, Inc., Sencorp Systems, Inc., Armac Industries, Inc., Pharma Group, Inc. and Detroit Tool Metal Products.

DT Industries, Inc. and its group of companies comprise one of the world's leading designers, manufacturers and integrators of automated production equipment and systems used to make or package industrial and consumer products.

Our equipment and systems include automated assembly and test systems, resistance and arc welding systems, thermoforming and extrusive systems, blister packaging machinery, complete lines of liquid and tablet packaging systems, metal stamping and fabrication.

Call one of our corporate representatives today at 1-888-384-3343.

DT Industries Foreign Sales Corporation

c/o PW Corporate Services

Price Waterhouse Centre

Collymore Rock Road

Bridgetown, Barbados, West Indes

BUSINESSES FOR SALE

Romanian Pig Farm

A P Supperstone of BDO Stoy Hayward, acting as Liquidator of SUINPROD BAILESTI offers for sale the following:

- Romanian pig farm located at Bailesti, closest large town is Craiova, 30 kilometres away
- Total capacity of 125,000 pigs
- Surface of 125 hectares
- Shelters covering 125,700 square metres
- All necessary sanitation buildings

Further details either from Mr A P Supperstone, BDO Stoy Hayward, 8 Baker Street, London W1M 1DA. Telephone: 0171 893 2208. Facsimile: 0171 935 3944

or Mr N Balan at Conti Audit, Bulevardul Unirii Nr 70, Bloc J4, Scara 2, ETAJ 4, Apartament 44 - Sector 3, Bucharest, Romania. Telephone: 00401 3235980. Facsimile: 00401 3231106.

BDO

BDO Stoy Hayward Corporate Recovery and Insolvency

Supermarket Chain

The Joint Administrative Receivers, Alan Lovett and Jason Elles offer for sale on a going concern basis the business and assets of Robert Greig Limited.

Principal features include:

- Four long-established food retail outlets with car parking in Camberley, Basingstoke, Andover and Sidcup.
- Properties occupied on a leasehold basis with an average square footage of approximately 25,000 square feet each but freeholds may be available.
- Shops available for purchase on an individual or combined basis.
- Combined turnover c£21m.

For further information, please telephone the Joint Administrative Receiver, Alan Lovett of Ernst & Young, Apex Plaza, Reading, Berkshire RG1 1YE. Tel: 0118 950 0611

ERNST & YOUNG

The United Kingdom firm of Ernst & Young is a member of Ernst & Young International and is authorised by The Institute of Chartered Accountants in England and Wales to carry on investment business.

Canamerican Limited

L K Denney & J B Adkinson, the joint administrative receivers of Canamerican Limited, offer for sale the assets and undertakings of this Lincoln based manufacturer of laminated pine board.

Details include:

- Freehold property (approx 22,000 sq ft) in Lincoln.
- Approximate turnover for year to 31 March 1998 £2m.
- Quality high throughput timber process machinery, not yet fully utilised – includes Gabbiani plus Trai 6000 precision angular panel saw up to 5.1m capacity.

For further information contact Lindsay Denney or Jonathan Astbury at Deloitte & Touche, 1 Woodborough Road, Nottingham NG1 3FG. Tel: 0115 950 0511. Fax: 0115 936 3777.

Deloitte & Touche

Authorised by the Institute of Chartered Accountants in England and Wales to carry on Investment Business.

FOR SALE IRON FOUNDRY

- West Midlands
- 60,000 sq.ft., Six Acre Site
- 50 Tonnes per week Capacity
- Electric Melting
- Experienced Labour Force
- Stable Customer Base
- Reputation for High Quality
- Scope for Expansion

Contact Box B5970, Financial Times One Southwark Bridge London SE1 9HL

FOR SALE

AS A GOING CONCERN

Profitable Civil Engineering Division of Limited Company situated in North Wales (Turnover £3 million)

Specialists in road surfacing for local authorities, housebuilders and construction industry in general.

Enquiries to Box B5975, Financial Times, One Southwark Bridge, London SE1 9HL.

FOR SALE

Profitable, growing and well managed ladies retail chain dealing in English and European branded labels.

Based in Northern Ireland.

Turnover in excess of £3.4m and rising.

Principals only in writing to Box B5968 Financial Times One Southwark Bridge London SE1 9HL

The Administrators Christopher Morris, Robert Cameron-Ellis & Hugo Green appointed in accordance with Law 8215 (dated 9 May 1997), Law NR8227 (dated 30th July 1997) and the decision by the Council of Ministers No 501 (dated 24 November 1997) and no 66 dated (30th Jan 1998) announce:

Deloitte & Touche

IMPORTANT PRELIMINARY SALE ANNOUNCEMENT

MAJOR DISPOSAL PROGRAMME

Real Estate

Office Accommodation

Industrial & Warehouse Accommodation

Hotels, Restaurants & Bars

Petrol Filling Stations

Supermarkets

Apartments & Holiday Chalets

Floating Hotel & Tourist Pier

Food and Beverage Production Machinery and Equipment

Cognac, Beer and Soft Drinks Production

Pig & Poultry Rearing and Slaughter Facilities

Animal Feed Mill

Cold Storage Facilities

Meat & Sausage Processing Machinery

Dairy Product & Sauces Processing Machinery

Confectionery Production Machinery

Mining, Quarrying and Construction Plant and Machinery

Quarrying Plant & Mineral Rights

Brick and Concrete Manufacturing Plants

Construction Plant & Equipment

Motor Vehicles, Helicopters and Marine Vessels

Commercial Vehicles and Saloon Cars

Helicopters

Passenger Ferries and Commercial Craft

Engineering Production Machinery and Equipment

Machine Tools

Woodworking Machinery

Plastic Injection Moulders

Broadcast, Banking and Office Equipment

TV Production Suite

Office & Banking Machinery & Equipment

Located: Albania

Further information, when available, can be viewed at http://www.henrybutcher.com/project.albania

For further information interested parties should contact Tim Chapman or Rosemary Coffey:

HENRY BUTCHER INTERNATIONAL AUCTIONEERS AND VALUERS

Tel: +44 (0)171 405 8411

Fax: +44 (0)171 242 2809

email: henry.butcher.auctions@dial.pipex.com

Creed Light Engineering Limited

(In Receivership)

Braintree, Essex

A leading specialist manufacturer of luminaries in the fluorescent lighting market, with innovative designs for major contracts.

- Turnover circa £5m
- Markets include extensive major 'blue chip' accounts, supermarket chains and prestigious developments
- Advanced technology design facility
- Substantial order book
- 65 employees
- Extensive in-house manufacturing resources within 34,000 sq ft of modern premises.

For further information please contact the Joint Administrative Receiver, Andrew Conquest at:

Grant Thornton, Crown House, Crown Street, Ipswich, Suffolk IP1 3HS. Tel: 01473 221491. Fax: 01473 288206.

Web Site: http://www.grant-thornton.co.uk

Grant Thornton

The UK member firm of Grant Thornton International. Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

M&A MARKETPLACE

WORLD LEADER IN "DONE DEALS"

- WEB lists of 4,000+ world wide Co's., most sizes and industries.
- FREE & confidential listing.
- Optional "SMART AGENT" with daily E-mail update of tailored requirements at, as little as, £1.25 per week.

Toll Free: 1-800-349-4959

www.mergernetwork.com

PKF worldwide Dealmaker

For Sale Construction Company

Established and profitable construction business contracting in both the public and private sector with a blue-chip client base.

Principal features of the business include:-

- Turnover circa £4m
- Adjusted profit before tax of £300k
- Large investment property portfolio
- Midlands based
- Strong management staying with the business
- Retirement sale

Ref: DM101

Interested parties (principals only) please contact:-

Malcolm Cook at Pannell Kerr Forster Corporate Finance

New Guild House, 45 Great Charles Street

Queensway, Birmingham B3 2LX

Fax 0121 212 2300

Pannell Kerr Forster is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business

PANNELL KERR FORSTER CORPORATE FINANCE

YORKSHIRE ARTIFICIAL STONE COMPANY

Well established.

Seeking to sell due to retirement.

Fully equipped large factory, plant & staff

Established clientele

T/o Approx 1 Million Net

Very High Profit

Please reply in strictest confidence to: Box B5978, Financial Times One Southwark Bridge, London SE1 9HL

Essex Health, Leisure and Hotel Complex for sale.

Freehold land, recently refurbished to a high standard.

For detailed fact sheet call 01 624 824 555 or fax 01 624 823 949

For Sale Precision Engineers

- West of England
- Turnover circa £800K
- Long Established
- Excellent Profitability

www.ks-homedirectory.co.uk

FOR SALE

Reply Box B5973, Financial Times, One Southwark Bridge, London SE1 9HL

Hi-Tech Manuf Co

WIRRAL - T/O 350K.

- Blue chip clients
- Full order book
- Own product range.
- Robotics
- Process Plant
- Control Systems
- Automatic handling

01273 277128

BUSINESS SERVICES

Commercial Mortgages

Re-Mortgages

Fixed from 8.5%

Minimum Loan £1M

Tel: 0181 546 8857

Limited Companies

From £95 Inclusive

Own Choice of name

Tailor made to your needs by accountants

01273 277128

Elliott Drummond

Angera, Levin & Baltz

Commercial/Criminal/Tax Litigation

Cost Effective Representation of Global Clients in U.S. Courts

U.S.A offices in New York, New Jersey, Pennsylvania

908.306.1500 fax: x1900

Email: A3jr@angeralaw.com

BUSINESSES FOR SALE PLC

Van & Car Hire - NE England

Software Distribution U.K.

071 281 1270

By order of the Liquidator of Ramira SA (in voluntary liquidation)

FOR SALE

ESTABLISHED PNEUMATIC TOOLS MANUFACTURER

- Dedicated production machine tools
- Product patterns, jigs & tooling
- 3500 sq. m. factory with capacity for expansion
- Local & international market
- Local skilled workforce
- Capacity: 1500 units per month
- Established: 1979
- Location: Romania

For further information please contact either Tim Chapman or Edward Bronston at Henry Butcher, Brownlow House, 50/51 High Holborn, London WC1V 6EG, UK

Tel: +44 (0)171 405 8411 Fax: +44 (0)171 405 9772

E-mail: henry.butcher.auctions@dial.pipex.com

HENRY BUTCHER INTERNATIONAL AUCTIONEERS AND VALUERS

ERNST & YOUNG

PKF BILTONS TABLEWARE LIMITED

COOPERS WOOD LIMITED

For Sale

Pottery Manufacturers

A W Thompson and P J Long, the Joint Administrative Receivers, offer for sale as a going concern the business and assets of the above two companies including:

- 1997 turnover of £13M
- 1998 turnover anticipated in excess of £10M
- Blue chip customer base with a strong export business
- £2M+ order book
- 360 strong dedicated workforce
- Plant capable of 60,000 dozen piece per week capacity
- Modern attractive product range
- 4½ acre freehold site in Stoke

For further information please contact the Joint Administrative Receivers at:

Pannell Kerr Forster

52 Mount Pleasant

Liverpool L3 5UN

Telephone 0151 708 8232 Fax: 0151 708 8169

Pannell Kerr Forster is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business

PANNELL KERR FORSTER CORPORATE RECOVERY

For Sale

HOTEL GROUP

An ideal opportunity for emerging AIM Plc or a MBI

Established group of profitable hotels servicing the Corporate & Conference markets.

Principal features of the business include:

- Turnover circa £3.4m
- Estimated NOP £1.35m
- UK National & Blue Chip Customer Base
- Midlands Based Head Office

Interested parties (principals only) please write to: Box B5974, Financial Times, One Southwark Bridge, London SE1 9HL

TECHNOLOGY WIRELESS NETWORKS

Signalling a different approach

Paul Talacko on the use of spread spectrum as a means of radio wave transmission

Same frequencies, different purposes: A Red Cross worker uses Proxim's technology in the field

For decades, radio regulations have been designed to ensure that transmitting signals used as little of the spectrum as possible, because it was such a valuable resource and had to be rationed.

But many communications engineers believe it is no longer necessary to be so cautious. They point to the increasing popularity of a method of transmitting signals known as "spread spectrum", which has been used for years in devices such as garage door openers.

Spread spectrum turns the traditional approach to radio wave transmission on its head by using large chunks of the spectrum. Transmissions do not interfere with each other, partly because they need be made only at low power – so low that they are almost indistinguishable from background noise – but mainly because receivers will only respond to signals specifically destined for it. Similarly, a traditional FM radio will filter out spread spectrum signals.

The result is that thousands of people can use the same radio frequencies for different purposes.

Supporters of spread spectrum say it could boost the development of wireless local area networks (Lans), which would otherwise have to use large chunks of valuable radio spectrum. These wireless Lans are being deployed in everything from hospitals to warehouses and stock exchanges, for data transmission or for connecting to the internet without using existing copper-wire networks.

In the Mongolian capital of Ulan Bator, for example, a wireless network based on spread spectrum was installed recently to bypass the city's poor telecommunications infrastructure.

The city had a satellite ground station internet link, but no easy way to transmit those signals to users at the various universities, institutes and the US embassy.

To rectify the problem, a team from the US National Science Foundation, together with Datacom, a Mongolian company, installed a network of wireless modems to provide high-speed data transfers without the expense of laying cable. The project has since been handed over to the Mongolians.

In the US, the Federal Communications Commission (FCC), which regulates radio transmissions, first authorised unlicensed use 10 years ago of spread spectrum in the wavelengths reserved for the industrial, scientific and medical (ISM) sectors.

Julius Knapp, chief of the policy and rules division in the FCC's office of engineering and technology, says the commission "saw the potential and unique features of spread spectrum technology at that time, and as the technology advanced and the cost dropped, there has been an explosion of devices".

It is, therefore, no accident that development in this area has happened almost exclusively in the US. Mr Knapp says the FCC is "very pleased with the spread spectrum rules because although they were adopted before the technology was available, the technology has been transferred into many areas".

In the UK, the Radiocommunications Agency is still defining standards for spread spectrum networks, as is the European Telecommunications Standards Institute (Etsi) for Europe as a whole. In the past few years, spread spectrum start-ups have flourished. Wessels, Arnold and Henderson, the brokerage firm, estimates that the combined worldwide market for wireless Lans – including spread spectrum and other technologies – will grow by about 28 per cent a year to $2.2bn (£1.3bn) by 2002. Growth is bound to get a fillip as the first wireless devices to offer transmission speeds approaching those of fixed wired networks have just been launched.

Enthusiasts say spread spectrum creates the opportunity to dispense with regulation of the radio spectrum

Brian Button, vice-president of marketing and sales at Proxim, a California-based spread spectrum wireless Lans manufacturer, says its technology "has applications in situations where people are mobile or move around in a location".

Proxim has seen explosive growth in the healthcare sector, where hospital staff with a handheld pen computer can move about freely while accessing health records that used to be available only to a person standing at the foot of the bed. With wireless Lans, it is possible to maintain that record on a central computer, which is simultaneously available to the attending physician and to pharmacy, radiology and other departments.

However, all is not rosy. Dewayne Hendricks, chief executive of consulting engineers Light Speed Imagineering, and one of the radio hams who was in the forefront of this technology, is disappointed with the way most suppliers have implemented spread spectrum networks.

"In many locations, no more devices can be deployed because they have started to interfere with each other," he says, placing the blame on manufacturers for not having "figured out networks" properly. "Transmitters are transmitting all the time, creating a virtual wire," Mr Hendricks adds, rather than transmitting packets of data only when required. This, he says, is due to inappropriate limitations on the use [illegible] spread spectrum that were imposed by the FCC.

Mr Button says, [illegible]wever, that the trading [illegible] of the Chicago Board [illegible]tions Exchange has so[illegible] 200 devices in a very sm[illegible] area, although there may [illegible]ve to be some design c[illegible]iderations to be take[illegible] into account in limited spa[illegible].

Enthusiasts such [illegible] Mr Hendricks say sprea[illegible]pectrum creates the oppo[illegible]nity to dispense with reg[illegible]tion of the radio spectrum. [illegible]ing to the unregulated [illegible]net as a model, they sa[illegible]ernments should step [illegible]de to allow the new approa[illegible] to take hold.

But whatever happens[illegible] Button expects the us[illegible] of spread spectrum to [illegible] space, with the first app[illegible]tions in the home appea[illegible] next year. Users with sev[illegible] personal computers will [illegible] able to create networks [illegible] connect to the internet wi[illegible]out the annoyance of cab[illegible]

BUSINESS & THE LAW LEGAL PRACTICE DEVELOPMENTS

Medieval guild besieged by a modern world

Diana Bentley listens to a call for lawyers to catch up with the standards and *structures of other professions*

For Joel Henning, Chicago-based vice-president and general counsel of Hildebrandt, *one of the world's* largest consultants to the legal profession, developments in legal practice during the past decade have presented some paradoxes.

"A lot of lawyers are making more money than ever before but they've never been more unhappy," he says.

The cause, he believes, is the fundamental, historic shift in their working environment. The legal profession in the UK and US is one of the last of the "medieval guilds" and it is disintegrating. Lawyers are understandably worried about its demise.

"They blame it on all sorts of things but really what has changed is the world – consumers of legal services have become more discriminating and demanding," he says.

Accepting reality and dealing constructively with the issues confronting the profession, however, is essential. And for that reason he regrets that the concept of total quality management has had little impact on the legal profession.

"In the business world TQM blew in and blew out *again but a positive residue* remained," he says. But too many in the legal community ignored it when it was a high-profile subject and so *failed to benefit* from its effects.

"It's a pity because some components of TQM, like the notion of continuous improvement, careful supplier management and being close to the client, would have been powerful forces for good in the legal marketplace."

The issues TQM addressed remain for the profession today. One is the need to shift to a demand mentality. Lawyers have been guilty of providing services and products without sufficient *regard to clients' needs.*

"Up until about 1990, no one asked the client what sort of risk or expense they wanted to bear. Lawyers are trained to provide the Rolls-Royce service, producing documents and analyses which assume the client should bear zero risk. But clients may want the Ford service – they may be prepared to bear some risk but want a faster, less costly service," he says.

The sure way for lawyers to determine if they are fulfilling clients' needs is to ask them, he says. Asking for feedback directly should be a recurring effort. Lawyers need to be closer to clients and their business strategies to develop complementary products and services.

He cites the example of a company that was given a lengthy analysis of a proposed, troublesome council ordinance from its lawyers but for a fraction of the fee charged by the lawyers hired a lobbyist who persuaded the council to adopt less draconian regulation.

Although the partnership model retains its relevance for profit sharing and voting *on critical* issues, *beyond* that, Mr Henning says, it needs to be modified.

"When law firms had 10 partners you had real partnerships. But with large, global enterprises it is different. We're finding that the best-managed firms are moving to a managing partner or person who has more power to make decisions and hold partners responsible on certain matters."

According to Mr Henning, law firms must have a vision that includes a strategic plan, work products – or what they sell, selling and pricing policies, marketing plans, a suitable financial base, a good compensation system and a proper governing structure.

"You often need a centralised structure to have a coherent approach to the other components of the *vision," he says. But* while much organisation in modern law firms must be centralised, he believes other aspects need to be delegated to heads of various practice groups.

Another change looming large on the horizon is competition from other professional service firms for legal *work, particularly from the* Big Six accountancy firms.

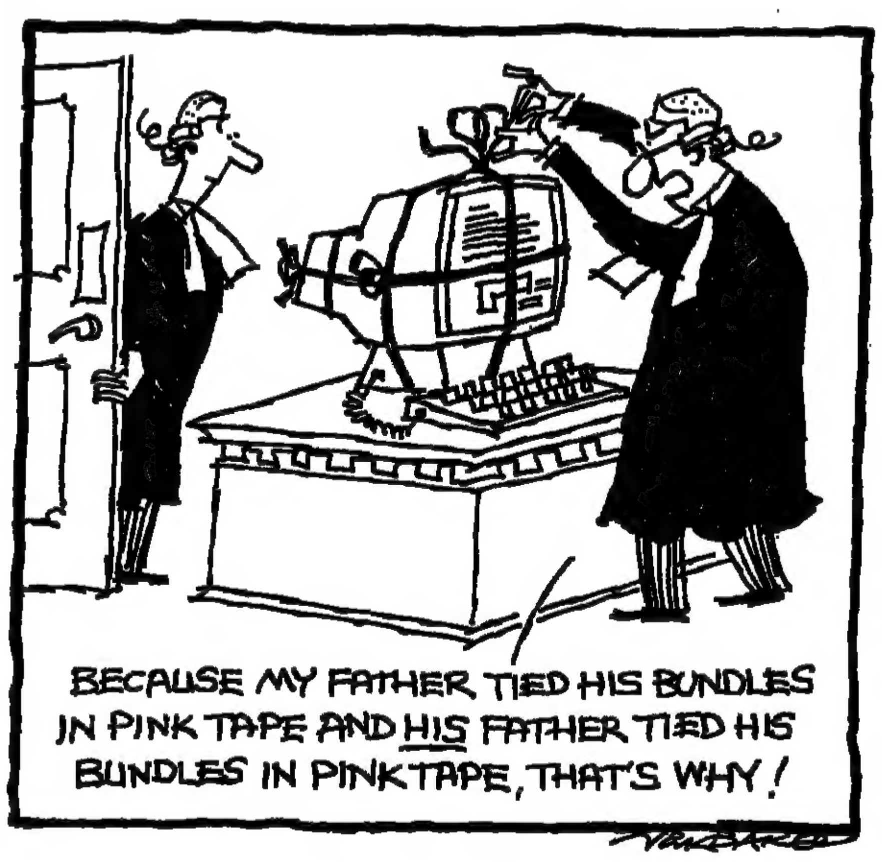
"The big law firms will tell you confidently that they will continue to do the big ticket work – but they also have a great deal of work which could be done by accountants. Accountancy firms may not be able to compete at the top level, but that leaves several levels of service below where they could eat the lunches of the big law firms," he warns.

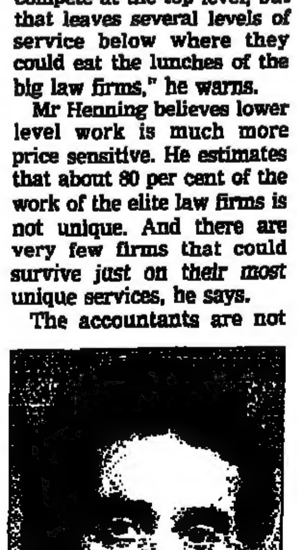
Mr Henning believes lower level work is much more price sensitive. He estimates that about 80 per cent of the work of the elite law firms is not unique. And there are very few firms that could survive *just* on *their most* unique services, he says.

The accountants are not the only ones muscling in on the lawyers' territory. Employee benefits advice and litigation management services are also being provided by specialised organisations.

"Law firms should be more aggressive and more entrepreneurial. Some firms are getting more into tax practices and merchant and investment banking. You can invade others' turf and also become more sharply focused in niches not so easily invaded by the non-legal organisations," he suggests.

The globalisation of business is also having an *impact on legal services.* "There is no such thing as a domestic legal practice in, say, Chicago. No one has clients who are not required to be international. The European Union, Nafta and other trade treaties, all intensify the need to be global."





'A lot of lawyers are making more money than ever before but they've *never been more* unhappy'

Joel Henning, vice-president and general counsel of Hildebrandt

For those who understand the needs and opportunities of the global marketplace there are several ways to respond, he says. Some have opted for global practices while others have formed international alliances.

Whatever the preferred solution, it requires a sturdy approach. "Lawyers are intimidated by lack of certainty in international market places but they need to *develop robust attitudes as* to how to best service clients."

In many of the countries experiencing great growth the law is quite primitive. But while there is little scope to apply technical legal expertise, much can be done to assist clients by understanding how business operates in that jurisdiction.

In the future Mr Henning there will be a continual problem for law firms in hiring and keeping the best and the brightest in private practice.

"With continuous demands for high quality at the lowest cost, the strains of private practice won't diminish and lawyers need to become much better employers like the accountants."

He also foresees a continuous shift in the balance of power between lawyers working in-house for companies and external law firms.

"This has been another cause of unhappiness for practitioners. Once they were their clients' trusted colleagues. But now it is often the inside counsel who holds that position."

The fault for this shift in relations between companies and their external legal advisers lies with practitioners, he suggests. "They're not establishing and main*taining continuous relation*ships with clients as business partners."

It is an issue he believes the profession should confront as a whole. In the US, the medical profession has been far more responsive to consumer demands.

As an occasional lecturer at Harvard Law School, he finds that law schools often remain resistant to programmes designed to improve client/lawyer understanding and communication.

US medical schools, however, are training students to develop the ability to have more open, trusting relationships with patients to complement their technical skills.

Ruling on ice-creams

European court

In the latest round of "ice-cream" litigation, the European Court of First Instance temporarily suspended the execution of the European Commission decision declaring void the exclusivity provision in freezer cabinet agreements between the principal manufacturer of ice-cream in Ireland and retailers.

Van den Bergh Foods, the principal manufacturer of ice-cream in Ireland, makes freezer cabinets available to retailers selling its ice-creams on condition they are exclusively used for sale of those ice-creams.

Mars, another food manufacturer, thought such exclusivity contrary to EC competition rules. In parallel with litigation in the Irish courts, it complained about this practice to the European Commission. The Commission decided such exclusivity was contrary to the competition rules and refused to grant an exempton to Van den Bergh for these agreements. Van den Bergh applied for suspension of the execution of this decision until it could appeal the matter to the European Courts.

Van Den Bergh argued the Commission had incorrectly assessed the foreclosing effect of the freezer cabinet exclusivity. Those outlets *having space for* two or more freezer cabinets had sufficient space to place a cabinet belonging to themselves or another supplier. *That 40 per cent of all retail*ers had freezer cabinets provided exclusively by Van den Bergh did not mean that 40 per cent of retail outlets were inaccessible to other suppliers.

It had also been decided by the Irish courts that the exclusivity provisions did not even infringe the competition rules to begin with.

The Court had to address the issue of the urgency of the application for suspension. The effect of the Commission decision was that the exclusivity provision would have to be revoked, changing a long-standing distribution system. It also meant competitors such as Mars would try to sell their products through outlets previously less accessible. It seemed Van den Bergh's distribution system would suffer serious and irreparable harm if the exclusivity provision were revoked.

There were also serious practical difficulties for Van den Bergh if the exclusivity provisions were revoked only to be later found compatible with the competition *rules. It would be very diffi*cult to make retailers comply with the exclusivity provision again. And enforcement was not a matter of urgency for the Commission.

The Court also noted an apparent contradiction between the views of the Irish courts and the Commission on the legality of the exclusivity provisions. A decision of the Irish courts had found the exclusivity provisions to be compatible with the competition rules whereas the Commission had impugned them. Enforcement of competition rules was a shared competence between the Commission and the national courts. This conflict jeopardised legal certainty. Adverse consequences should be limited as much as possible.

The Court said that the Commission's interest in having the infringement brought to an end could not prevail over Van den Bergh's interest in *maintaining its* distribution system.

Immediate execution of the decision would risk causing Van den Bergh serious *and irreparable harm and* create further legal uncertainty. The fact that its competitors found it difficult to distribute their products as a result of the alleged *structural* barriers could not take precedence over the risks identified.

Case T-65/98 R, Van den Bergh Foods Ltd, v Commission, Order of the President of the Court of First Instance, July 7, 1998

Bick Court
Chambers, Brussels

هكذا من الاصل

MANAGEMENT CATERPILLAR AND CUMMINS

Engine makers take different routes

Peter Marsh looks at how the two rivals are trying to move into unfamiliar markets or new technologies – one through acquisition, the other through joint ventures

To control or not to control – that is the question facing many companies as they consider how to gain access to new technologies or markets through linking up with other businesses.

There are few better examples of the different approaches than the battle for dominance in the large diesel engines sector, in which Caterpillar and Cummins Engines, two big engineering companies in the US, compete head-on.

Caterpillar is best known for its earthmoving equipment, of which it is the world's leading maker, but last year it gained one-quarter of its near-$19bn sales through diesel engines. These are sold to customers in power generation, shipbuilding, trucks and industrial machinery, and are directly related to the engines Caterpillar builds for its own use.

Cummins focuses far more on engines and derives most of its nearly $6bn annual revenues from these products, which are sold to customers similar to Caterpillar's. With both companies about the same size in terms of revenues from diesels, Cummins is slightly ahead in units – Caterpillar generally sells its engines with additional equipment to fit them to specific applications, which pushes up prices.

According to industry statistics, Cummins is the world's biggest maker of large diesels (more than 200hp) in units. Caterpillar is in third position with Navistar, the US truckmaker, between them.

Caterpillar and Cummins differ in their stance on moving into new markets through joining up with other businesses. In the past decade, Cummins has formulated a strategy based on joint ventures with outside groups – including customers and competitors.

For instance, Cummins is building a new family of engines for power generation with Wartsila of Finland and runs an engine factory in the US jointly with Case, the big US tractor and construction machine supplier. In 1996, Cummins formed a $300m joint venture with Fiat, the Italian group, to develop and make engines for tractors, buses and trucks, to be fitted early next decade.

It also has several partnerships with Komatsu, the big Japanese company which is second to Caterpillar in excavators and a big engine builder in its own right.

Caterpillar, meanwhile, has taken a determinedly go-it-alone approach, preferring to stay in complete control of its new engine ventures.

In the past two years, it has spent more than $2bn buying engine companies worldwide – including MaK of Germany and Perkins of the UK, makers respectively of very large engines for electricity generation and ships, and of smaller engines suited for fitting to new families of compact construction machines.

The high cost of adapting diesel technologies for use in new types of products is driving the decisions of Caterpillar and Cummins. Both companies have spent billions of dollars since the 1930s developing their diesel know-how. Building a new series of engines with different applications can cost an extra $300m-$400m. Much of this cost is linked to modern techniques to satisfy fuel consumption demands and pollution controls.

Buying existing companies can often be less expensive than trying to develop the new applications independently, according to Gerald Shaheen, head of Caterpillar's engine products division. "This technology does not come cheap," he says.

He adds that Caterpillar has generally aimed for complete control of its new engine ventures, partly to safeguard what it regards as proprietary know-how that feeds directly into the engines it uses internally for its construction equipment.

Managers in both parts of Caterpillar's engines business – concerned with customers inside and outside the company – are encouraged to share development and manufacturing ideas, which the company sees as vital to sustaining a competitive advantage in its machinery business.

Cummins has taken a more flexible stance, with its smaller financial base precluding the kinds of acquisitions Caterpillar has opted for in recent years. Its managerial bias is also more oriented towards collaboration – almost all its sales are built around some kind of partnership with customers, which buy engines for fitting into their own products.

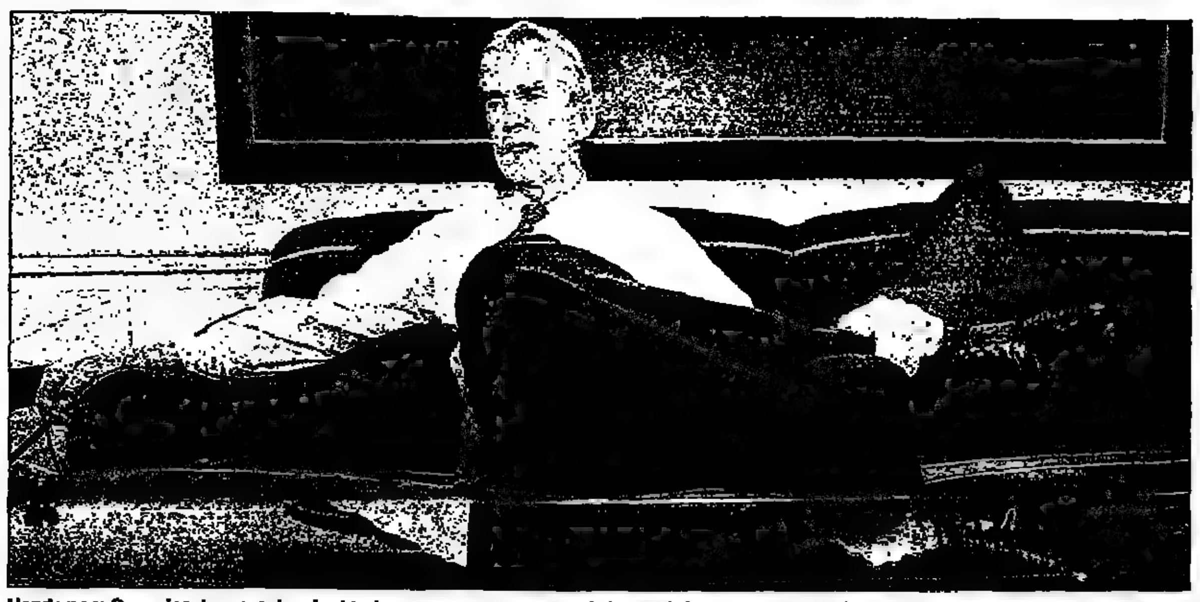
Even so, Jim Henderson, Cummins chairman and chief executive, says the company has had to learn a more open way of sharing information with its worldwide collaborators. "I would not have imagined 10 years ago that I would spend so much time as I do now travelling around the world and talking to partners on new engine ventures," he says.

The high cost of adapting diesel technologies is driving their decisions

The new approach has not always been easy. In the past decade, Cummins had to take the tough step of shutting down its own US-based development programme on large generator engines, in favour of the new project with Wartsila. This involved teaming up on a new production operation for the engines in France.

But the company has probably benefited from lessons learnt in its long, and sometimes turbulent, partnership with Komatsu. It formed its first joint venture, purely on manufacturing, with this company as far back as 1961.

Strains appeared in the 1980s as the Japanese group sought to loosen the ties with Cummins on engines by radical price cutting in the latter's home market in North America. In one episode in 1987, the then Komatsu president described Cummins as "the enemy" at a ceremony to open a US factory. But relations have clearly become a lot more cordial. In the past few weeks, the two companies have announced a joint venture to collaborate on small engines in a move which Mr Henderson regards as an important element in his company's efforts to branch out into new businesses.



Henderson: Cummins, he says, has had to learn a more open way of sharing information with worldwide collaborators

Shaheen: Caterpillar has generally aimed for complete control of its new engine ventures

Pictures: Jason Orton

PEOPLE ON THE MOVE

Lane to leave Travelers for a return to asset management

Jeffrey Lane has decided to end his 29-year association with Travelers' boss Sandy Weill to take up a newly-created post at Neuberger & Berman, the fund management group.

Lane, 56, has spent eight years at Travelers Group, most recently as vice-chairman responsible for various administrative functions.

He says leaving Travelers as it embarks upon its ground-breaking merger with Citicorp – which he describes as "the defining financial services merger" – was a very difficult decision, but he missed hands-on asset management.

Lane began his career with CBWL-Hayden Stone, the firm founded and headed by Weill, and later served as president and chief operating officer of Shearson Lehman Brothers.

Neuberger & Berman has a long-standing business relationship with Travelers. The partnership employs around 1,000 staff and has more than $60bn in assets under management for individuals, institutions and its $24bn family of no-load mutual funds.

"Jeff is an unusual talent in our industry with a broad range of experience and exposure," said Larry Zicklin, Neuberger & Berman's managing principal.

Tracy Corrigan, New York

KPMG shake-up in Europe

As central Europe seeks to join the European Union, KPMG has split its operations there into a separate region, headed by **Richard Ebling**. Ebling, who qualified as a chartered accountant in the heady year of 1966, says he left the UK for Germany soon after partly as a reaction to the permissive aura of "swinging" London. The move paid off. Since 1993 he has been chief executive of KPMG's 30,000-strong Europe region which covered 45 countries from Brussels.

KPMG has split off the CIS into a new region run from Moscow by **Roger Munnings**, formerly responsible for Russia, while **Colin Holland**, 49, steps up from running Luxembourg to take over western Europe and Ebling decamps to Budapest where he will oversee central Europe with its 1,700 or so staff as senior partner.

Ebling speaks English, German, Italian and French as well as some Hungarian. He is excited about the prospect of developing a region that is growing faster than western Europe and detects a entrepreneurial spirit in the area. He said: "There are people in garages in Bucharest and Bratislava setting up companies now which will be Fortune 500 companies in the not too distant future."

Christopher Bobinski, Warsaw

Carlotti rises at Mediaset

Mediaset, the Italian broadcaster, has named **Maurizio Carlotti** managing director of its media and programming division. He joins **Giuliano Adreani**, who has been reconfirmed as advertising managing director.

They replace **Carlo Bernasconi**, who will run film production and distribution unit Medusa, and **Adriano Galliani**, who will concentrate full-time on managing soccer team AC Milan. Both remain on the Mediaset board.

Carlotti comes from managing Telecinco, Mediaset's Spanish television channel, and his appointment was received warmly by investors. Mediaset shares hit their highest level for more than two months after his appointment and news that the group is to resume talks on a European partnership.

New directors at Darby

Peter Jones, director of West Merchant Bank's Latin American strategic transactions group, is joining Darby Overseas Investments, the Latin American-focused investment group established by former US Treasury secretary Nicholas Brady, as a managing director.

His appointment follows the move to Darby last month of **Julio Lastres**, former director of the capital markets department of the International Finance Corporation, the private equity arm of the World Bank, and **Jorge Martins**, formerly with Saxxon Capital, a Bolivian investment bank. Lastres, who had been with the IFC since 1989, joined as a managing director and Martins, who was also with the IFC until 1994, as a senior principal.

Stephen Fidler, Washington

Moving places

● Volkswagen has named **Gerd Klauss** president of its US and Canadian subsidiaries. Klauss, vice-president of VW of America and head of Audi in the United States and Canada, will take over from Clive Warrilow at the end of the year.

Klauss, 52, has 25 years of experience, working with Daimler-Benz in Germany and North America before joining Audi of America in 1992.

● **Daniel Colson** has been appointed vice-chairman of Southam, Canada's largest newspaper publisher. He is vice-chairman of Hollinger.

● Lehman Brothers has appointed **Dalip Awasthi** senior vice-president and head of its expanded Asian credit research group. He joins from UBS.

● **Massimo Armanini**, UBS's country head for Italy, is going to Parmalat, the food company.

● Lehman Brothers has hired **Robert Zielinski** from Jardine Fleming as senior financial services analyst in the firm's Asian equity research group.

● Barclays has named **Kamal Kalkat** chief executive of its Indian operation, based in Bombay. He was joint head of investment banking at Jardine Fleming, India.

● BBC Worldwide and Discovery Communications has appointed the BBC's **Candace Carlisle** chief operating officer of JVP, its production joint venture.

● UBK Asset Management, a subsidiary of the United Bank of Kuwait, has appointed **Robert Friend**, 40, chief investment officer.

● **Daniel Lewis** has been named president of Booz Allen & Hamilton's worldwide commercial business.

● **Daniel Brestle**, president, Clinique, USA and Canada, has moved to president of Estée Lauder, USA and Canada. **William Lauder**, president, Origins Natural Resources, replaces him. **Lynne Greene**, senior vice-president, sales and education, Origins, replaces him.

● **Gary Schmalzreidt** has been named chairman and chief executive of CIGNA's European insurance arm.

● **Ricardo Alvarez Tostado** has been named chief executive of Mexican corn milling concern Grupo Industrial Maseca.

● Merrill Lynch has appointed **Mercedes Grau**, 31, assistant vice-president. She will manage the private banking team in Barcelona.

● Arthur D. Little Japan, part of the consulting firm, has named former US official **Glen Fukushima** president and representative director.

● **Eric Soares**, 35, has been appointed head of operations at Novell France.

● Spanish beef producer El Aguila has appointed **Klaas Stuijtzand** finance director. The 44-year-old Dutchman was finance director of Heineken Export Group, its parent company.

● Morgan Stanley Dean Witter has appointed **Steven Harker** managing director and chief executive of its operations in Australia. He comes from BZW.

Action replays: (from top left clockwise) black day in Marseilles, bleached Romanians, colourful giants, Suker crowns a chequered season, Tartan trooper, Ronaldo's purple patch, referees see red, Zidane's pot of gold, others see stars, Owen shines, and Brazil fans dress fancy

ABIDING IMAGES A TOURNAMENT SCRAPBOOK

Dancing and diving to football's festive beat

The FT's team of reporters in France pick out some of the tournament's defining moments – both on and off the pitch

June 10, Paris: The morning of the opening game, and the *city is overrun with Scotland* fans. At the Trocadero monument a drunken, liberally tattooed Glaswegian is playing football with a young French boy of north African descent. The Scotsman repeatedly falls over, the boy is an eight-year-old *Maradona, and the large* crowd in the sun laughs. Later that day, the game between Scotland and Brazil surprisingly takes a much more equal course.

June 10, Montpellier: Morocco against Norway, and after a bristling start *from the Scandinavians*, the Moroccans take complete control, inspired by the deft skills of their ponytailed midfielder Mustapha Hadji. Bad defending costs them the three points, which they *will come to regret. A local* Moroccan businessman is *gently prised from reality by* his team's performance: "There are three favourites to win this World Cup: Brazil, Germany and Morocco."

June 13, Lyons: In an otherwise bland fixture between *South Korea* and *Mexico*, Mexican winger Cuauhtemoc Blanco unveils the tournament's only genuine skilful innovation: the "frog" dribble, in which he traps the ball between his feet and jumps over the outstretched legs of two opponents.

June 14, *Lens*: A Jamaican DJ has set up shop in the *square outside Lens station* and booming reggae beats fill the evening air. The Croatian fans prove as incapable of dancing in time as most other white Europeans, but no one minds. Is this the *first recorded large-scale* meeting of Jamaicans and Croats in history?

June 14, Marseilles: England supporters begin to gather in the city's Old Port for the forthcoming match against Tunisia. Many of them are drunk by *mid-morning. A middle-aged* local woman begins to banter good-naturedly with a group of beer-swilling men. One of them caresses her cheek in what looks like a surprisingly tender moment. *In fact, he is making a joke* about her facial hair. If only *charmlessness* was their worst offence. Marseilles will become a battle zone for the next 48 hours.

June 29, Montpellier: Germany beat Mexico, luckily, after falling behind to *another goal from the excel*lent Luis Hernandez. The *Germans* always win like this, people say. Watch them go all the way. But not this elderly German side, completely reliant on the spring of Oliver Bierhoff and the reflexes of Jurgen Klinsmann. *They stumble out in* the next round.

June 30, Bordeaux: *It is* the second round and Croatia and Romania play probably the worst game of the tournament, a 1-0 win for Croatia. Yet Davor Suker, Croatia's striker, saves everyone's *afternoon. Twice* he pirouettes almost a full *circle* while dragging the ball around a Romanian defender with the sole of his boot, before taking off down the wing. Each time fans of *both teams* and the neutral French applaud. Suker ends the tournament as top scorer.

June 30, Saint-Etienne: A hot day, with violence inevitable, although the English *fans unleash it on the Argen*tines only after their team is knocked out of the World Cup on penalty kicks. For most of the game, Argentina outclasses England. Yet just one moment persuades much of the world that the English should have gone *through. It is Michael* Owen's Concordesque flight through the Argentine defence. *England briefly go* 2-1 ahead.

FT France 98 reporting team:
Peter Aspden
Patrick Harverson
Simon Kuper
David Owen

July 4, Marseilles: When the World Cup is as good as it is meant to be, the fans become irrelevant. The first two weeks were bland: the good *teams* won, everyone defended, and everyone played the same way. The competition finally took off during England-Argentina.

Holland-Argentina, today, is even better. Two of the best teams in the World Cup score a goal each, rattle vari*ous posts and countless* nerves.

With 11 men against 10 after Arthur Numan is sent off, in the broiling heat, Argentina will surely win. Ortega picks up the ball, advances on the giant, terrified Jaap Stam, and hurls himself over Stam's knee. Everyone expects an Argentine penalty; instead, the referee gives Ortega a yellow card. Edwin van der Sar, the *Dutch keeper, engages in* debate with Ortega, who, quite unexpectedly, soars heavenward to deliver a gentle headbutt.

Ortega is sent off. Two minutes later, Frank de Boer, one of the men of the World Cup, drops a 45-yard *ball on Dennis Bergkamp's* right toe. What follows is perhaps the most extraordinary goal of the tournament, the dismissal of Argentina, and the rediscovery of why so many people watch the World Cup. When it is good, it is very good indeed.

July 7, Marseilles: The fans in the Stade Vélodrome form a vast bowl of oranges and lemons as Holland face Brazil in a semi-final that many purists describe as the "real" final. The seeds for *Brazil's downfall* are already here: an unwillingness to attack, defensive weakness in the air, an over-reliance on Ronaldo. The Dutch pass impressively enough, but Dennis Bergkamp has decided to go missing for the evening. A bad time to play his worst game of the tournament.

July 12, Saint-Denis: The final. Christophe Dugarry, the French substitute, cries his eyes out after the final whistle. Aimé Jacquet, the French coach, is held aloft by his players, brandishing the *golden* trophy.

In Paris, several million other individual celebrations go on. In one restaurant, a few yards from the Paris Opera, a beautiful, blonde woman, wearing a "Zidane 10" French shirt, whirls around the dance floor for hours. One suspects that the modest Zidane, not many *years out of a poor Marseil*les suburb, would have been surprised to find such elegant admirers.

She invites a succession of German men to join her. But inside their head is the remark made earlier this World Cup by Berti Vogts, *Germany's coach, who had* said that his country's footballers are so inelegant they "dance like refrigerators". The World Cup may be a carnival of nations, but tonight is no time to be anything but French.

BETTING

Brazil cost punters dear

Brazil's appalling performance in the World Cup final will have cost bettors dearly and ensured big profits for commercial bookmakers, who always prosper *when a hot-shot favourite is* reduced to rubble, Michael Thompson-Noel writes.

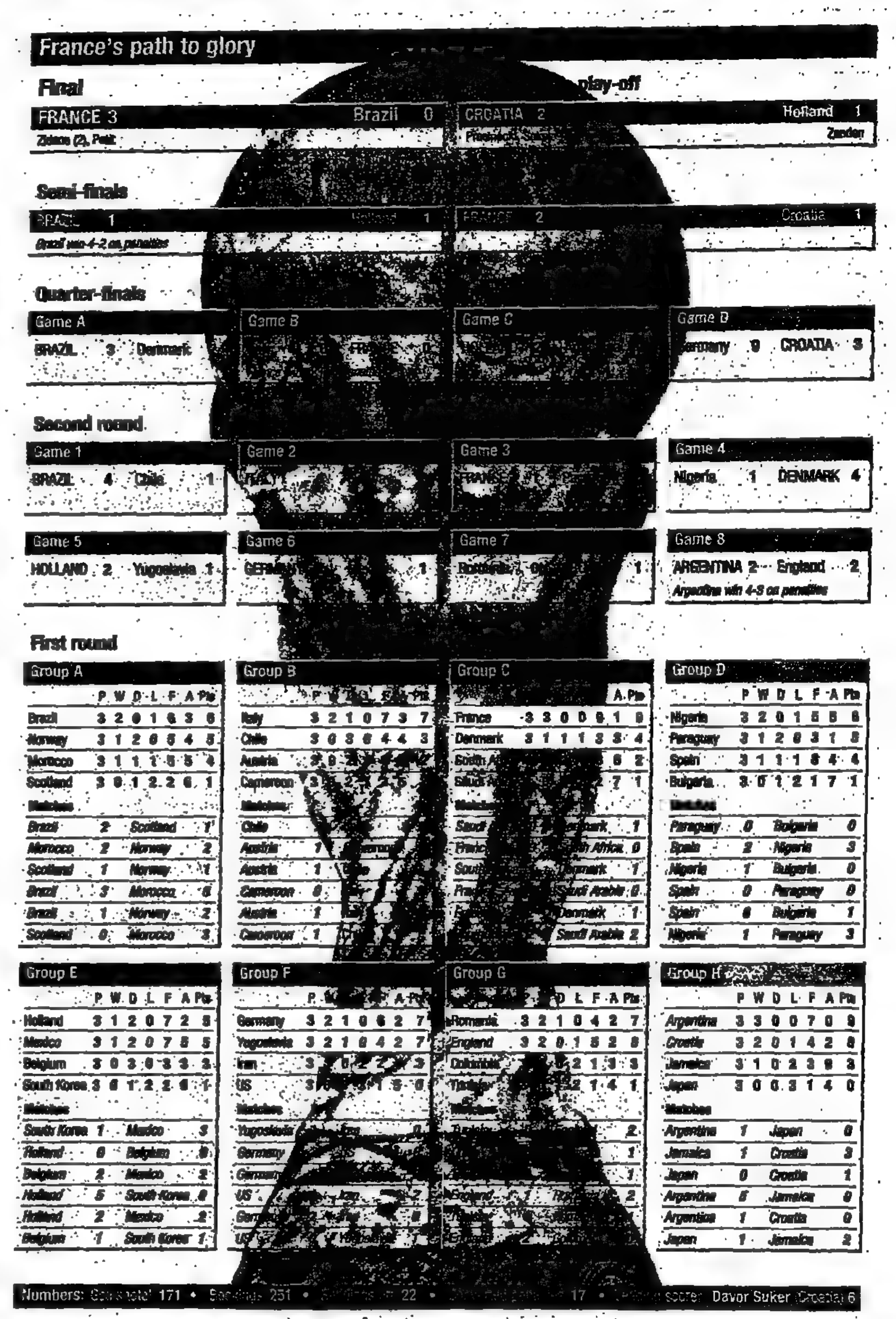
By last Friday, the FT's £1,000 World Cup betting pot had incurred a probable loss on various bets, includ*ing Argentina to win* and Gabriel Batistuta for the Golden Boot, of £290.

In an effort to wipe the slate clean, the remaining £710 was staked on Brazil at 8-15 (stake £15 to win £8).

Brazil were very dodgy favourites from the outset: it would have been better to have stuck to this original conviction and put the £710 on France at 13-8.

The best of the FT's bets was £40 on Denmark at 33-1 at the quarter-final stage, where the Danes were unlucky to be beaten 3-2 by Brazil. But for Rivaldo's goal in the 60th minute, Denmark could well have *gone on to win the* championship.

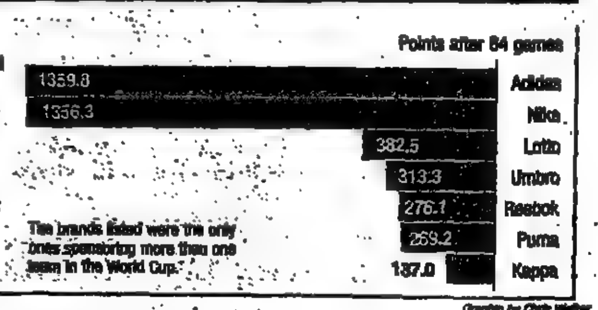
The FT pot finished with a total loss of £1,090, including £90 in UK betting tax. The organiser has departed for a long holiday south of the equator.



Battle of the brands: FT World Cup sponsors index

Were France 98's battle of the brands a game of football, it would have been won by Adidas on the umpteenth kick of a penalty shoot-out. After 64 games, France's second goal against Brazil, in the final of the real World Cup, took the German sportswear group fractionally ahead of Nike, its American rival, the sponsor of Brazil and Holland. Third place goes to Lotto thanks almost entirely to its sponsorship of Croatia, the surprise winners of Saturday's third place playoff against the Dutch.

The index measures brand exposure through the performance at France 98 of teams wearing the various companies' kit. Nike and Adidas were always likely to come out on top, having entered the tournament with six teams each. Puma's five were all eliminated in the first round, while Umbro and Reebok each had three.



The brands listed were the only ones sponsoring more than one team in the World Cup.

Graphic by Chris Walker

هكذا من الأصل

In praise of the lengthy career

William Packer on Josef Herman, and the remarkable Shani Rhys James

It goes on, this summer full of painting not by the fashionable young but by some of the UK's most distinguished senior painters. Josef Herman, at 87, has a fair claim to such seniority, still active and very much at work, and with not one, but two retrospectives to prove it.

Herman has had several retrospectives before, the first at Whitechapel in 1956, the latest, at the Camden Art Centre in 1980. Recognition enough, perhaps: but never yet the final accolade, the definitive exhibition at the Hayward or the Tate.

A closer look at a long record of exhibitions that began in Warsaw in 1932, reveals many smaller shows in private galleries, backed up by the occasional regional tour, and nothing substantial since 1980. The Tate, indeed, holds works of his, but mostly prints and drawings with only a couple of oils. Suddenly these two shows, each graced by a handsome and informative monograph, seem as much reproach as celebration.

The trouble is that artists too easily get fixed, in the curatorial and critical mind, in the time they first excite attention. And in our preoccupation with the new and the young, we forget that the artist's may just as properly be a long career. Only when we look back across the whole do we see how much we have been missing. It is not that the early work is not important nor of high quality, but only that it is a start. Herman's early work is indeed remarkable, and deserved its success in the 1940s and 1950s; but that, as we now see, should not obscure the quality, nor the constancy within its development, of what came after.

Herman was born in Warsaw into a poor Jewish family, and there he studied and became a painter. Young and idealistic, he was particularly involved with a left-wing group of artists, The Phrygian Bonnet, that took the working and peasant life as its principal subject. And so for Herman, *mutatis mutandis*, it has remained. Munch was an early influence and, of course, Courbet, Van Gogh and Rouault.

In 1938, he left Poland for Belgium, and in Brussels discovered the group of contemporary expressionists, then in their 50s and 60s, of de Smet, van den Berghe and, most important for him of all, Constant Permeke. The two years he was to spend in Belgium formed his art, as much in its facture as its imagery, with a low, close tonality, and the heavy physicality of the paint itself, to match the sombre, simple monumentality of his miners and peasant labourers.

In 1940, he escaped the invading Germans by a circuitous route and extreme good fortune, fetching up in Glasgow by way of La Rochelle and Liverpool. He has remained in the UK ever since, living in south Wales, Suffolk and Scotland as well as London. And to look back on the work by which the UK first came to know him, is to see that already he was bringing to British art something that was distinct – an impassioned simplicity, monumental and authoritative in its formal statement and control, that was both political and transcending all politics.

The figures of his more recent years may have grown more abstracted, mythic and symbolic. Yet we see in them, as in those old Welsh miners in shirtsleeves and helmets, and the peasant in his cart along the lane, the same essential sympathy, universal, indifferent, unembittered and humane.

Of these two shows, I have seen only that at Flowers East, but knowledge both of the work and of those involved in its presentation at the Boundary, gives me every confidence in the double recommendation. Also at Flowers East, "Artist of the Day", the annual exercise by which established artists nominate a fellow whom they admire, whose work then fills the gallery for a single day, is in its second and final week, though examples of those already shown will have been kept back. By its very nature recommendation can only be given sight unseen, but again by experience I do so whole-heartedly. That those still to come have been nominated by Freya Payne (today), then Michael Tyzack, Trevor Sutton and Sean Scully, is recommendation in itself.

A final recommendation is to the Paton Gallery next door, and the first substantial group of paintings by Shani Rhys James to be shown in London. Now in her 40s, she is little known outside her native Wales, but her career spanned a period in the 1980s in which expressionist figuration by young artists saw a considerable revival.

Her essential subject is the self-portrait, from vast to tiny, at once unsentimental and celebratory. The context, when not close-up, is the kitchen, house or studio, often elaborated with still-life of quite bravura accomplishment. One studio tabletop here, a forest of pots and jars, is a *tour de force*, worthy of Corinth or Ensor at his best. I reviewed her touring show last year at some length, and so will say no more than that she is a painter of remarkable power who should be, will be, better known.

'Stand Off' 1994, detail, by Shani Rhys James, who is little known outside her native Wales

Josef Herman – the Work in the Life: Flowers East, 282 Richmond Road E8, until August 2. Josef Herman Retrospective: Boundary Gallery, 98 Boundary Road NW8, until August 2. Shani Rhys James: Paton Gallery, 282 Richmond Road E8, until August 2. Artist of the Day: Flowers East, 282 Richmond Road, until July 17.

OPERA CARMEN/LSO

In anticipation of the bullring

The usual justification for concert performances of opera is that they give an airing to repertoire which is too little known or too expensive to stage. Or there happens to be a recording in the offing. Or, like the Royal Opera these past several months, you're homeless.

Well, Sunday's concert performance of *Carmen*, given by the London Symphony Orchestra and Chorus under Sir Colin Davis, needed no such justification. The platform of the Barbican Centre may be a long way from Seville, but this City of London festival performance was more theatrical, and certainly more musical, than most staged productions.

Sir Colin conducted with all his old flair: this is a score which brings out the visceral in him at the expense of the cerebral. The perfume of the cigarette girls' chorus, the local colour of Lillas Pastia's, the moonlit watch of the smugglers, the anticipation of the bullring – Sir Colin's reading encapsulated them all.

He is a Carmen interpreter *sans pareil*, but I'm sure he would be the first to acknowledge the idiomatic responses of the LSO principals and the wholesome discipline of the Chorus (chorusmaster Stephen Westrop). *Carmen* ultimately depends, of course, on the singer of the title role – and in Olga Borodina we found the gypsy of our dreams: a classy woman who knows her value, a Carmen with sex appeal *and* majesty, an individual with a heart, but who knows how to bare her cat's claws when wronged.

Dressed in a lacy black number that made her look formidably Spanish, Borodina simply oozed personality. And the voice comes in the same size. Rare is the Carmen who can sing without a break in register, who can command such a sultry *sotto voce*, who caresses her lines so naturally.

Given the platform rapport between the principals, this had the *feel* of a staging – though no one was credited in the programme for what was clearly an intelligently rehearsed animation of the dialogue. That applies less to Nikolay Dobrev's inexperienced Escamillo than to the young Slovak soprano Andrea Dankova, a natural performer with a sweet voice and fetching looks – perhaps too fetching for the quiet country girl who can't bring herself to plant a kiss on Don José.

There were doubtless many women in the audience who would gladly have taught her how, for the lovestruck soldier was sung by the new tenor heart-throb, José Cura. Is he as good as his publicity? There's not much character to the voice, short of an ability to whip up temperament and capitalise on the money notes. I think he relies too much on these "external" qualities. In moments of lyrical expansiveness, his phrasing is short and unimaginative; the *Flower Song* showed little grasp of style, and he needs to polish his French. But there's an animal physicality to his singing – and that's no disadvantage in a concert performance of *Carmen*.

Andrew Clark

Barbican Centre, London.

Let there be life

THEATRE

ALASTAIR MACAULAY

What You Get and What You Expect
Lyric Theatre, Hammersmith

New French plays are seldom seen in London. After you have named the two by Yasmina Réza currently showing in the West End – and I do, admiringly – you have to pause before the names of any other West End production of any play by a living French playwright comes to mind.

Now the Lyric Theatre Hammersmith brings us Jean Marie Besset's *What You Get and What You Expect*, and in a new translation by Jeremy Sams . . . and, alas, I find myself resenting the fact that it is French. *What You Get* has a serious plot, some funny situations, and serious themes (bisexual adultery, architectural plagiarism, the corridors of power, the approaching death of a young homosexual): *so what more is* needed?

Answer: life. There is a schematic chill to *What You Get* that only the French can achieve. The characters talk about their concerns and lives with acute analytical skills: and no small talk, no supporting detail, no flesh on their dramatic bones.

Much of *What You Get* is antechamber drama: people talk while waiting for events offstage to be decided. This works in Molière or Racine; but who here can believe that these architects, or this architect's wife, or these civil servants talk quite like this? The play improves when sex or love is in the air; but not enough. *What You Get* feels like a very detached, very French exercise in manipulation: like the Marquis de Sade without the sex and without the torture.

Thierry Harcourt's production is elegant, but it seems probable that another staging might bring the play into life more often. It does flare up vigorously whenever Jessica Turner is on as the ministerial attaché Louise Kanter: her timing, her focus, and her dash of caricature make this scheming and copulating civil servant a vivid shot in the arm in her every scene.

The other five actors all have some good passages and some terrible passages; though the sex/love scenes are well-handled, you can seldom in general believe that these characters are talking to each other in real time.

Everyone suffers for art in 'Manes'

THEATRE

SARAH HEMMING

Manes
Three Mills Island Studios, London

In the hands of the Barcelona performance company, La Fura dels Baus, theatre has nothing to do with passive recreation.

The company is renown for its wild, confrontational style and its latest show, *Manes*, bursts upon Three Mills Island Studios (as part of the Greenwich and Docklands Festival) like a thunderstorm. It is spectacular, often dazzling and frequently terrifying. One might describe the production as a "promenade performance", although in fact the experience for a member of the audience is closer to that of a heifer at a cattle auction.

You are first herded into the vast dark space, blinking in the near black and trying to avoid falling over objects and people. In the centre of the space, a pair of dimly lit actors perform a bizarre ritual, which seems to consist of passing a piece of liver *back and forth between* them.

You ponder on the meaning of this at your peril, however. Suddenly you are shoved brutally aside by fierce men pushing great metal trolleys blazing with lights, who charge through the crowds scattering spectators right and left.

From another direction come more grim-faced figures, hauling giant eggs made of slats of wood. Music pounds through the auditorium. The eggs judder and roll ominously – by now the crowds are backing away nervously – only to split open unexpectedly, disgorging, wild, spiteful figures in vests and nothing else. These new-born sprites run amok, jibbering and shouting, spraying water, terrorising the audience and trashing props. This sets the tone for the evening.

Members of the audience cling to their partners as various apparently malevolent figures materialise among them, forging paths with their strange professions, carrying out mysterious rituals, erecting poles and climbing them, or rolling through the audience coaxing individuals into communicating with them and then spraying them with white liquid.

What is it all about? Well, the dossier that comes with the show talks about investigating "the relativity of aspects of human personality experienced internally and externally" and recreating "the schizoid attitudes of the fin-de-fiecle decade".

This is not immediately decipherable. They certainly plunge you into a fragmented world, full of confused and angry characters, although to me it felt more like being immersed in some medieval vision of the inferno. The piece has its own integrity, appearing to move along a path from birth to death, and the company creates some stunning and unsettling images. In one of the most striking passages, two women limp around the space, hauling behind them a wooden truck full of mewling, wiggling swaddled bundles which could be babies but are also horribly reminiscent of maggots. They place the bundles singly on the ground, each with its own candle, where they continue to writhe and cry – a truly disturbing moment. But if the audience has to suffer for art, the performers do even more so: one woman had to rip not one, but two dead chickens apart with her teeth.

The performers are fit, furious and frightening; the show noisy, messy, intense and *sometimes brilliant*. And, as you pick your way out at the end, taking care not to slip on bits of squashed chicken, you feel as though you have escaped from some disturbing but strangely compelling nightmare.

INTERNATIONAL

Arts Guide

ATLANTA

EXHIBITION
High Museum of Art
Tel: 1-404-733 4444
Self-Taught Artists of the 20th Century: An American Anthology. 300 works by more than 30 artists. Includes paintings, sculpture and installations; from Jul 14 to Sep 20

BASLE

EXHIBITON
Kunstmuseum
Tel: 41-61-271 0828
www.kunstmuseumbasel.ch
Andy Warhol: Drawings 1942-1987. Around 230 works by the American pop artist, most of them on loan from the Andy Warhol Museum in Pittsburgh and the Warhol Foundation in New York; to Jul 19

EDINBURGH

EXHIBITION
Scottish National Portrait Gallery
Tel: 44-131-624 6200
The Winter Queen: The Life of Elizabeth of Bohemia. Includes around 50 paintings, plus a selection of engravings and medals; to Oct 4

GLIMMERGLASS

OPERA
Alice Busch Opera Theater, Cooperstown
Tel: 1-607-547 2255
● Falstaff: by Verdi. New production directed by Leon Major with sets and costumes by John Conklin. Conducted by George Manahan. Cast includes Kevin Glavin, Stephen Powell and Amy Burton; Jul 19
● The Mother of Us All: by Virgil Thomson. Conducted by Stewart Robertson in a new staging by Christopher Alden, with sets by Allen Moyer; Jul 18, 20

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Rodelinda: by Handel. New production directed by Jean-Marie Villégier, with sets by Nicolas de Lajartre and Pascale Cazales. With the Orchestra of the Age of Enlightenment conducted by William Christie; Jul 14, 20
● *Simon Boccanegra*: by Verdi. New production conducted by Mark Elder in a staging by Peter Hall. With the London Philharmonic Orchestra. The title role is sung by Elena Prokina; Jul 19

GRAZ

DANCE
Opernhaus
Tel: 43-316-80080
Kirov Ballet in a three week season. Performances of Swan Lake (Jul 14, 16), a Fokine evening (Jul 17), La Bayadère (Jul 18), The Sleeping Beauty (Jul 19) and Swan Lake (Jul 20)

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
Carmen: by Bizet. Sir Colin Davis conducts the London Symphony Orchestra in a concert performance, with soloists including Olga Borodina and José Cura; Jul 15, 17

BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● BBC Symphony Orchestra: Andrew Davis conducts Berlioz' The Damnation of Faust on the first night of the Proms. With the BBC Singers and Symphony Chorus, and soloists Richard Margison, Bryn Terfel, Ann Murray and Donald Maxwell; Jul 17
● BBC Philharmonic: conducted by Yan Pascal Tortelier in works by *Bernstein, Ravel, Gershwin and* Hindemith. With piano soloist Louis Lortie; Jul 20
● Les Arts Florissants: conducted by William Christie in Rameau's Zoroastre; Jul 18

EXHIBITIONS
Concourse Gallery, Barbican Centre
Tel: 44-171-638 8891
www.barbican.org.uk
Absolut Cobblers: shoes as art, created by some of Britain's leading shoe designers and shown alongside work by students of Cordwainers College; from Jul 15 to Aug 16

National Gallery
Tel: 44-171-839 3321
Venice through Canaletto's Eyes: taking the form of a journey along the Grand Canal, this display brings together 23 paintings and drawings of the artist's native city, mainly drawn from British collections; from Jul 15 to Oct 11

MILAN

OPERA
Teatro alla Scala
Tel: 39-02-88791
www.lascala.milano.it
Lucrezia Borgia: by Donizetti. Conducted by Gianluigi Gelmetti in a staging by Hugo De Ana. Casts vary; look out for Renée Fleming; Jul 14, 16, 18

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: conducted by Jun Märkl in works *by Brahms, Mahler and* Schoenberg. With soloist Barbara Hendricks; Jul 14, 15, 16

OPERA FESTIVAL
Bayerische Staatsoper
Tel: 49-89-2185 1920
● Don Giovanni: by Mozart. Conducted by Peter Schneider in a staging by Nicholas Hytner, designed by Bob Crowley. Cast includes Alison Hagley; Jul 19
● Elektra: by R. Strauss. Conducted by Peter Schneider in a staging by Herbert Wernicke. Cast includes Marjana Lipovsek; Jul 17, 20
● *Giulio Cesare: by Handel.* Conducted by Ivor Bolton in a staging by Richard Jones, designed by Nigel Lowery; Jul 15
● L'incoronazione di Poppea: by Monteverdi. Conducted by Ivor Bolton in a staging by David Alden. Cast includes Ian Bostridge; Prinzregententheater; Jul 14, 16, 19
● Macbeth: by Verdi. Conducted by Mark Elder in a staging by Harry Kupfer, with sets by Hans Schavernoch and costumes by Reinhard Heinrich. Cast includes Maria Guleghina; Jul 16
● Simon Boccanegra: by Verdi. Conducted by Fabio Luisi in a staging by Tim Albery, with sets by Hildegard Bechtler and costumes by Nicky Gillibrand. Cast includes Amanda Roocroft and Alan Opie; Jul 18

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Gerard Schwarz in a programme of French works including Sarasate's Carmen Fantasy and Chabrier's España. With violin soloist Elmar Oliveira; Jul 16

SCHLESWIG-HOLSTEIN

CONCERTS
Schleswig-Holstein Music Festival
Tel: 49-431-567 080
Schleswig-Holstein Music Festival Orchestra: conducted by Dmitri Kitajenko in works by Rimsky-Korssakoff, Rachmaninov and Stravinsky. With piano soloist Gerhard Oppitz; Musikhalle, Hamburg; Jul 14, 15

STUTTGART

OPERA
Staatsoper Stuttgart
Tel: 49-711-202090
Tosca: by Puccini. New production by Willy Decker, conducted by Lothar Zagrosek with designs by Wolfgang Gussmann; Jul 14, 18

THE HAGUE

EXHIBITION
Lange Voorhout
Tel: 31-70-364 5764
The Hague Sculpture 98: outdoor exhibition of more than 50 works by sculptors including Rodin, Maillol, Calder, Moore, Bourgeois and Tinguely. A modern sculpture show at Het Paleis Museum is *showing at the same time;* to Jul 14

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● Japan Philharmonic Symphony Orchestra: conducted by Kazufumi Yamashita in works by Mozart, Vivaldi and Tchaikovsky. With violin soloist Teiko Maehashi; Jul 14
● Tokyo Symphony: conducted by Peter Feranec in works by Martinu and Dvorák. With cello *soloist Mari Fujiwara;* Jul 15

VERONA

OPERA
Arena di Verona
Tel: 39-045-800 5151
www.arena.it
● Tosca: by Puccini. New production by Giuliano Montaldo, with sets by Luciano Ricceri. Cast includes Ruggero Raimondi and the conductor is Angelo Campori; Jul 18
● Un Ballo in Maschera: by Verdi. New production by Giuliano Montaldo with sets by Luciano Ricceri. Conducted by Daniel Oren; Jul 17

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PETER MARTIN

Survival of the fittest

As the threat of deflation draws closer, companies must expand to stay afloat, for example by bundling services with products

American fund managers think deflation is on the way. The latest Merrill Lynch/Gallup poll* of 39 US investment institutions, managing nearly $2,000bn of funds, shows near unanimity about the outlook: slower growth, lower interest rates, earnings under pressure, and a negative influence from Asia.

What the survey does not show is what comes across in conversation: a general belief that for many companies the task of the next couple of years is surviving downward pressure on prices.

"Companies have to find some sort of a protected franchise," said one New York money manager recently. "They have to find some way to isolate margins from erosion – unique intellectual property, patent protection or a technology advantage."

This belief explains the outperformance of big companies, since they are generally assumed to have more of these advantages – above all, the intellectual property that resides in their brands. Patents expire, technology can be out-innovated, but a presence in millions of consumers' brains is an advantage that is less easily competed away.

For those companies that have these advantages already, the task for the next couple of years is to exploit them against less fortunate competitors. But all these assets take time to acquire. *Brands require years of* patient advertising. Patents and technology take time, too. *What can individual* managers do, in the short run, to protect their *businesses against the threat* of falling prices or dwindling margins?

There are some helpful lessons to be learnt from industries that have suffered severe price erosion in the past – *such as electronics or* those linked to commodity cycles, such as the oil business.

One such lesson for business-to-business manufacturers is to bundle the physical product together with services. *Makers of oilfield* equipment (such as drill-bits or drilling mud) have offered on-the-spot advice, consultancy and hand-holding for years.

Other companies vulnerable to "commoditisation" do *the same: adhesives* manufacturers will solve your gluing problem, as well *as sell you the gunk to do it.*

It is a tricky shift to carry out, because it requires *rethinking the company* culture to deliver solutions rather than boxes. And if *you do it wrong, you merely* end up with a bunch of over-qualified field staff who *do not know how to sell. But* if it is done right, it provides a way of keeping customers *tied to your apron-strings,* and thus offers some degree of protection against pricing pressures.

A *quicker fix can be* obtained by going with the flow, and providing a *lower-priced product variant.* Companies that succeed with this approach cut out *the bells and whistles, slash* production costs, and sell the new product at a *discount to their main* offering.

If all goes well, high-end *customers keep buying the* main product. Those motivated by price trade *down, of course, but that is* better than losing them to the competition. Volumes *stay up and – if the low-end* product is designed properly – margin is undamaged.

This is the repositioning that Compaq underwent a decade ago, when it realised that the personal computer industry was entering a deflationary phase.

As Compaq understood, the trick here is to base the new product on standard *components to keep down* cost. All the elements in the value chain – from *procurement through* manufacturing to distribution – must be ruthlessly pruned to reflect the new price position.

It is also essential to *continue to innovate* in the high-end product range, to ensure that customers are willing to pay a premium for it.

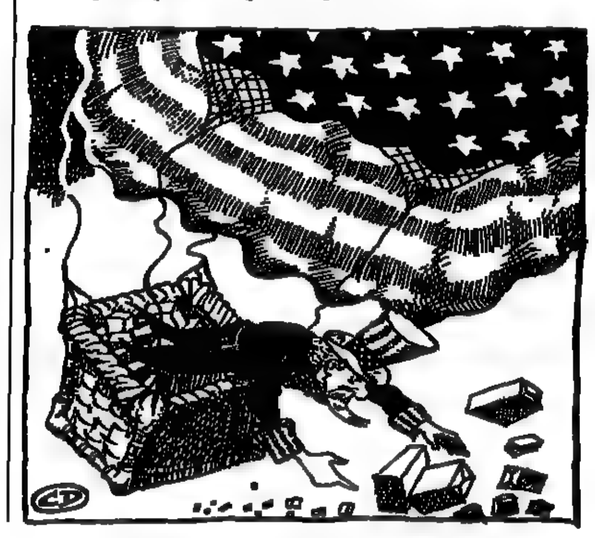
Innovation can help protect against deflation in other ways. A steady flow of new variants appears to offer new value. Even if they have to be introduced at the same price as the old, they go some way to protect against discounting.

The electronics-based industries offer a helpful lesson, too. They often *manage to keep old and new* lines going in tandem, selling the older products at *a discount. This broadens a* brand's shelf presence, retains loyal customers not *ready to move, and provides* an instant lower-price spoiler line, to fend off *cut-price competitors.* The most recent example of this approach has come in both Psion's and 3Com's Palm ranges of handheld digital assistants, both of which *offer different product* generations at different price points.

Companies whose products are vulnerable to generic competitors can also use this approach – as a glance at the different generations of Gillette mens' razors will demonstrate.

In a way, the important thing is not so much the individual strategies that companies pursue once they realise that deflation is a *threat, but the fact that they* recognise the risk at all. Until now, permanent price pressure has been confined to commodity businesses and those industries exposed to Moore's law, which predicts the ever-spiralling power of semiconductor chips.

If the fund managers are right – not only in their *comments to pollsters* but in where they are putting their money – it is about to become a much more widespread phenomenon.



**Merrill Lynch Fund Manager Survey July 1998. Trevor Greetham +44 171 772 1535, Charles Clough +1 212 449 0904*

peter.martin@FT.com

Towards a turning point

A broad social change, similar to that harnessed by Thatcher during the miners' strike, may be taking place in Ulster, says **John Murray Brown**

A marching force: Orangemen bearing flags during their parade at Drumcree church — Reuter

Every so often a turning point *occurs in a historic* feud when one side finds itself critically undermined. *Often the point* emerges clearly only in retrospect: at the time it is hidden by continuing violence. What become clear is that a broad social change has limited, though not ended, the ancient enmity.

Something like this happened during the miners' dispute in 1984, when it suddenly become clear that the striking miners, whom successive governments had *considered* unbreakable, were losing ground to the Thatcher government. Something similar may – just may – be occuring now in Northern Ireland.

After the tense stand off between Orangemen and security forces, the initial attempt by militant Unionists to undermine the new settlement in the province appears to be being beaten off. Like Margaret Thatcher's victory over the miners in the mid-1980s, Tony Blair's decision to face down down the militants may be changing the political landscape.

If so, the event will have a historic significance. In 1974, a strike organised by the Loyalist Workers Council brought Northern Ireland to a standstill and helped trigger the collapse of the Sunningdale power sharing experiment, a forerunner of the current settlement. That history, it seems, is not being repeated.

Many from both sides of the community expressed the hope that the traumatic events of the past week represent a watershed, a victory for moderate unionism over the extremists, an endorsement of the peace process, and a vindication for David Trimble, first minister of the new administration.

It was always assumed that attempts to reconcile the two sides in the Northern Ireland conflict would prove a zero-sum game.

Such a fatalistic outlook has defined the cautious approach of unionist leaders. But after months of tortuous negotiations, a kind of jig saw was put in place. First, the multi-party talks produced a settlement. Then the deal was overwhelmingly endorsed in a referendum, and in June a new power sharing assembly met for the first time.

A resolution of the Drumcree dispute is the latest piece of that jigsaw. As one official said yesterday, "we have gone through a process that we had to go through".

For the Orange Order, it has been a gruelling week, culminating in an extraordinary press conferences outside Orange House, as the Order's spokesman attempted to explain why their protest was being maintained in the face of the almost universal revulsion at the deaths of three boys killed in a sectarian firebomb attack on their home.

A split in the Orange Order seems unavoidable. Lodges in Fermanagh and Tyrone had decided not to support their Drumcree brethren. The County Down lodge withdrew its protest outside Hillsborough Castle.

Many respectable protestants would have found it hard to stomach the sight of loyalist paramilitaries – captured on a police video – using the protest as a cover for attacks on the security forces.

Mr Trimble has to tread carefully. He is also an Orangeman. His championing of the Drumcree marchers in 1995 helped him secure the leadership of the Ulster Unionist party. Moreover, he is the local MP.

But the crisis has shown that he is prepared to burn his political bridges with his constituents if that is what it takes to sustain this experiment in power sharing. On the parades dispute he has stood shoulder to shoulder with Seamus Mallon, his nationalist deputy.

The rewards are already evident. Direct negotiations with local nationalist residents on Belfast's Lower Ormeau Road resulted in the army and police withdrawing from the area allowing yesterday's Orange Order parade to go ahead without disturbances.

The contrast between yesterday's march and the unruly events at Drumcree has underlined the limits of public protest. The government was yesterday hoping to reconvene talks to find a solution to the Drumcree dispute.

For the few thousand congregating in the field near the Drumcree church last night, the protest will probably continue. The breakaway Loyalist Volunteer Force – which police blame for the recent arson attacks – may try to exploit the tension.

But the Orange Order's bluff has been called. The crisis has underlined that Orangemen have realised that they can no longer have the power to "paralyse" the province.

The Royal Ulster Constabulary, long vilified by nationalists as a partisan force, has demonstrated the rule of law is not just for one side of the community.

While the loyalist roadblocks have created inconvenience and the wave of sectarian attacks have raised the fears in the Catholic community, there were none of the mass demonstrations seen in 1996 during the Drumcree stand off.

And the argument over the Orange Order's traditional parades – far from uniting the various strands of unionism – has exposed the fissures. Jeffrey Donaldson, a Ulster Unionist MP who opposed the agreement, yesterday called for the creation of a new unionist alliance. It looked like a calculated attack on Mr Trimble, and an attempt to reforge a unionist party based around the Orange Order.

Indeed, Mr Trimble's advisers believe the crisis has highlighted the need for the party to break its formal links with the Order. As Steven King, one of the party's negotiators, said: "There is no way the largest party in Northern Ireland can be cast on the rocks every time the Orange Order does something crazy. There's more to play for now."

The prize, as Mr Trimble sees it, is to secure the union through a historic compromise with nationalism. Whether through luck, or foresight, he may well feel vindicated in deciding to hold firm to this goal and resist the temptation to revert to tribal backing of the Orangemen.

LETTERS TO THE EDITOR

Survival of democracy that is currently at stake in Russia

From Mr Vassili Riabov.

Sir, Professor Reddaway's comments on Russia (Letters, July 8) fail to appreciate that *the corruption of* the Russian government is not an issue in the current *financial/social/political* crisis, though it certainly added a lot of fuel to this forest *fire. It is the survival of the* recently established (and already powder-smeared) *Russian democracy that* is at stake this hot summer, and the fact that those upstairs *are corrupted,* and *those* downstairs are humiliated, increases the danger immeasurably. *(As for those who* are supposed to control the corrupted, Russia did not *change that much since the* times of Inspector General.)

Solving this crisis would *not solve the country's prob*lems, but it would let (hopefully) the unpopular government survive till the elections, which are due in 2000. A lot of people (Communist, ultra-nationalists, and *adventurers of all colours)* try to interrupt the fragile democratic continuity, by *forcing* the regime to go before 2000. It is a dangerous – not only for Russia – illu*sion to see this outcome of* the crisis as a short term pain that would result in *better government* for Russia.

If this crisis results in *financial and political catas*trophe, it would not – "the crucial point – increase the *chances* that the Russians will soon be able to select better leaders". Most proba*bly, the Russians in pain (far* from being short-term) would not demonstrate a *sound and reasonable* approach to the selection of their rulers. We should not forget who won the 1932 elections in crisis-beaten Germany, and here in Russia recent mayoral elections in Nizhny Novgorod showed who might be the people's hero.

With no guarantee for a better leader after 2000 either the choice is precisely between interrupting this toddling democratic tradition or allowing it to slowly *develop* by letting current leaders be voted out in 2000. By the way, if it happens *(still a big "if")*, it will be the first time in Russia's 11-century history that a democrat*ically elected ruler transfers* authority to a democratically elected ruler after his *full term of office.*

Vassili V. Riabov,
8 Mokhovaya str., bld 13,
103009 Moscow,
Russia

Sterling and the wages of competition

From Mr Geoffrey Dicks.

Sir, In the March Budget the UK Treasury gave a range of 2-2¼ per cent for gross domestic product (revised down from the 2¼-2¾ per cent contained in November's pre-Budget report). An out-turn towards the bottom of the range was associated with a relatively *poor supply side perfor*mance, Gordon Brown-speak for high wage payments.

*If the chancellor is "stick*ing" with his forecast that output will rise 2 per cent *this year, does this mean* that we have again paid ourselves too much?

And, if so, what happened to the debate about "the sustainable rate of wage infla*tion which can be afforded* without a loss of competitiveness" that in opposition *Mr Brown was going to* encourage? Perhaps, as a contribution to the debate, *he will tell us today how* much he thinks wages need to fall in manufacturing to recoup *the loss of competi*tiveness that the strength of sterling has brought about.

Geoffrey Dicks,
UK economist,
Greenwich NatWest,
1 Jermyn Street,
London SW1Y 4UH, UK

Picture that highlights gulfs in India

From Mr Pritam Singh.

Sir, The photograph of Sikh children participating in a protest rally against nuclear weapons in New Delhi (Asia Pacific section, July 7) was eye-catching. It highlighted the gulf between the backward looking BJP government in India and the interests and aspirations of the future generations in the sub-continent.

The BJP ideology is based on re-interpreting the past to generate hatred and violence in the present and thus creating an insecure future for the coming generations. The organisers of the protest rally in India deserve praise for their *imagination* in involving the children in the rally and *your photographer* and the reporter for focusing on this dimension.

Pritam Singh,
senior lecturer in
economics,
School of Business,
Oxford Brookes University,
Oxford, UK

IMF and US Treasury playing catch up on Asia strategy

From Mr Robert Wade.

Sir, Is it true that lowering real interest rates to near zero would cause further falls in Asian exchange rates? This is the assumption of Wanda Tseng's letter (July 6), and of the International Monetary Fund's whole Asia strategy. In fact, the cross-country evidence *shows no clear pattern* between real interest rates and changes in exchange rates. The theory suggests that when the debt is held by private companies, the net effect of high real interest rates is as likely to be a weaker exchange rate as a stronger one, because of the increase in insolvency and higher risk of default.

A weaker exchange rate is all the more likely in Asian-type financial structures in which companies typically carry much higher levels of debt to equity than western *counterparts. The IMF has* been painfully slow to grasp the implications of this difference.

There is little doubt that the second great wave of capital outflows from Asia, in May and June, was driven by the effects of high real interest rates and contractionary fiscal policies that the IMF has been insisting upon. If nominal interbank rates were brought down to 6-10 per cent and real rates to near zero, the economies would start to recover.

Mr Tseng, speaking for the *fund, says that* "monetary and fiscal policies are adjusting to mitigate the economic slowdown". Yes, but no thanks to the IMF. Asian leaders are finally beginning to follow the "lower real interest rate/monetary expansion" route, presenting the fund with a fait accompli.

The irony is the World Bank has been calling for this for some time, causing it to be excluded from the pol*icy table by the IMF and US* Treasury. Now the consensus in Asia is shifting in its direction with the IMF and Treasury playing catch up.

Robert Wade,
Russell Sage Foundation,
112 E 64 St,
New York, NY 10021, US

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers worldwide. Letters may be faxed to +44 171-873 5938 (set fax to 'fine'), e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages. Fax 0171 873 5938. Letters should be typed and not hand written.

هكذا من الأجل

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Tuesday July 14 1998

An uneasy act in Malaysia

It is no secret that relations between Mahathir Mohamad, the Malaysian prime minister, and Anwar Ibrahim, his deputy, are tense, if not positively hostile. The two co-exist with difficulty not only at the head of the Malaysian government, but also in the leadership of the ruling party, UMNO. Dr Mahathir calls the shots in domestic politics. Mr Anwar, as finance minister, has provided the acceptable face of Malaysia for foreign investors and the international financial community.

In the past, this has proved a workable double-act, providing reassurance to two contrasting audiences. Dr Mahathir blamed foreigners for the economic buffetting suffered by his country and his region. Mr Anwar ignored his premier's analysis, and pursued policies of economic rigour and budgetary discipline, designed to appeal to foreign lenders. But now the balancing act appears to have come unstuck, precisely when it may most be needed.

The economic growth figures produced by Mr Anwar yesterday – downgrading the official growth forecast from plus 2-3 per cent to minus 1-2 per cent for the current year – amount to a belated recognition of the extent of the current crisis. Many outside observers believe that the outcome may well be worse, at minus 3 per cent or more. Manufacturing output was down 5 per cent in the first five months, and exports, in dollar terms, down more than 10 per cent.

In response, the finance minister has committed himself to his premier's policy of reflation, rather than maintaining his own policy of austerity. The central bank is to establish a new fund to recapitalise domestic banks, in an urgent effort to revive their lending, which has slowed dramatically in the face of burgeoning bad debts. He has promised to cut interest rates, and force creditor banks to provide loans even if a company is facing financial difficulties.

The trouble is that few believe Mr Anwar's heart is in the new policy: they suspect he has been outmanoeuvred by Dr Mahathir within the party. Mr Anwar must be aware that a sizeable proportion of the bank loans outstanding are already bad and that forcing banks to increase their lending is to throw good money after bad. Yet political pressures to do so are overwhelming.

Unfortunately, Malaysia will not find a lasting escape from the current crisis without recognising the extent of the losses and restructuring the economy. Foreign capital will have to play a central role. Mr Anwar's credibility remains vital in attracting foreign investors to Malaysia. But the more he is forced to support an unsound policy at home, the more difficult it will be to sell Malaysia to a sceptical outside world. This balancing act is almost certain to fail.

Israel's zero sum

Benjamin Netanyahu, the Israeli prime minister, is letting it be known that he is close to agreeing on a US formula for the long overdue second withdrawal of Israeli troops from the West Bank. If this is right – and almost nothing Mr Netanyahu has said about implementing the 1993 Oslo peace accords with the Palestinians has so far stood up – it is unlikely to break the 16 months of deadlock in the Middle East peace process.

To begin with, Mr Netanyahu has reinterpreted the US package, just as he has undermined the "land-for-peace" foundations of regional detente. Washington persuaded the Palestinians to accept an Israeli pull-back from 13 per cent of the West Bank in February, although they believe Oslo entitles them to 30 per cent of Israeli-occupied territory at this stage.

Mr Netanyahu said he could offer no more than 9 per cent without compromising Israeli security. But the US said its formula, which includes a halt to further Israeli colonisation of occupied east Jerusalem and the West Bank, is the lowest possible common denominator for restarting talks, and pledged it would not dilute the plan.

This now appears to be exactly what the Americans are doing, allowing Mr Netanyahu to cede about 10 per cent, with minimal Palestinian control over a further 3 per cent. This is a cosmetic solution and there is no guarantee Israel will deliver it, or that Yassir Arafat, the Palestinian leader, will be politically able to accept it.

It would, moreover, come across as a particularly hollow outcome weeks after the Israeli cabinet announced plans to take Jewish settlements occupying over 8 per cent of West Bank land into an expanded Jerusalem. However much Israel explains this as the "expansion of municipal services" – just as new settlements are "housing projects" and land confiscation and the demolition of Palestinian homes are "planning and zoning" – such moves amount to a zero-sum game. They spell death to Oslo.

But the wider point is that the most the Netanyahu government is prepared eventually to cede is half the West Bank, about a tenth of historic Palestine, cut up into isolated cantons that would make a viable Palestinian state impossible.

The Israeli leader believes he can impose this solution with impunity. But what he will be doing is building up a level of bitterness and despair among Palestinians that neither he nor Mr Arafat will be able to control. Even if he can get away with it now, it is hard to see how Mr Netanyahu's Win-Lose solution will not have a Lose-Lose outcome, disastrous for both sides.

In the dumps

Those whom the gods wish to destroy, they first send mad – or at least make look utterly ridiculous. That seems a fitting epigram for the farce into which the European Union's anti-dumping policy has degenerated, in the face of complaints by European producers of unbleached cotton against cheap imports from the Middle East and Asia.

Operation of anti-dumping policy has long been open to question. It is anomalous, in a rules-based global trade system, that trading powers should be free to act as judge and jury over import competition. Particularly when, as is the case with dumping, judgments rest on arcane calculations and dubious assumptions about exporters' costs.

Even so, the unbleached cotton saga is a minor classic. It began more than three years ago, when EU producers asked the European Commission to act against allegedly dumped imports of this basic textiles input. When Brussels dismissed the complaint, the producers urged it to redo its sums. This time, Brussels found dumping and assessed punitive provisional duties.

However, a majority of EU governments refused to endorse the decision. Outraged, Jacques Chirac of France, home to many of the EU producers, threatened to tie up a European Council summit over the issue. A deal was struck, under which the Commission was to launch a third dumping probe. This resulted in further duties.

But Mr Chirac's victory has only dug the EU into a deeper hole, by prompting eight of its 15 members openly to condemn the Commission's decision. They say it not only ignores the majority will; but that protecting uncompetitive producers will raise the costs of EU textiles and clothing makers, and cause more finished products to be sourced offshore.

This display of economic rationality is a welcome sign that the Council of Ministers is no longer content simply to rubber-stamp Commission dumping recommendations. But it is hardly a reliable safeguard against future abuses. Given the power of determined protectionist lobbies, there may well be times when the Council once again allows political expediency to overrule fairness and economic common sense.

Short of scrapping anti-dumping policy entirely, that risk may be hard to eliminate. But the sordid political shenanigans surrounding the unbleached cotton affair may still do some lasting good. After this, it will be much harder for any EU spokesman to claim, with a straight face, that its dumping regime is based on rigorous method and judicial impartiality. In the absence of effective reform, ridicule may the best form of restraint.

A party left facing oblivion

The rout of Japan's ruling Liberal Democratic party has left it struggling to select a new leader, write Paul Abrahams and Michiyo Nakamoto

It was more than just a defeat. It was a humiliation. The most pessimistic of pundits had predicted that Japan's ruling Liberal Democratic party might lose one or two of its 61 seats in Sunday's upper house polls. Instead, the LDP was routed. It lost over a quarter of its seats, ending up with its lowest ever number of upper house members.

In many big conurbations, such as Tokyo and Osaka the party failed to win a single seat. Even in its rural heartlands it lost constituencies.

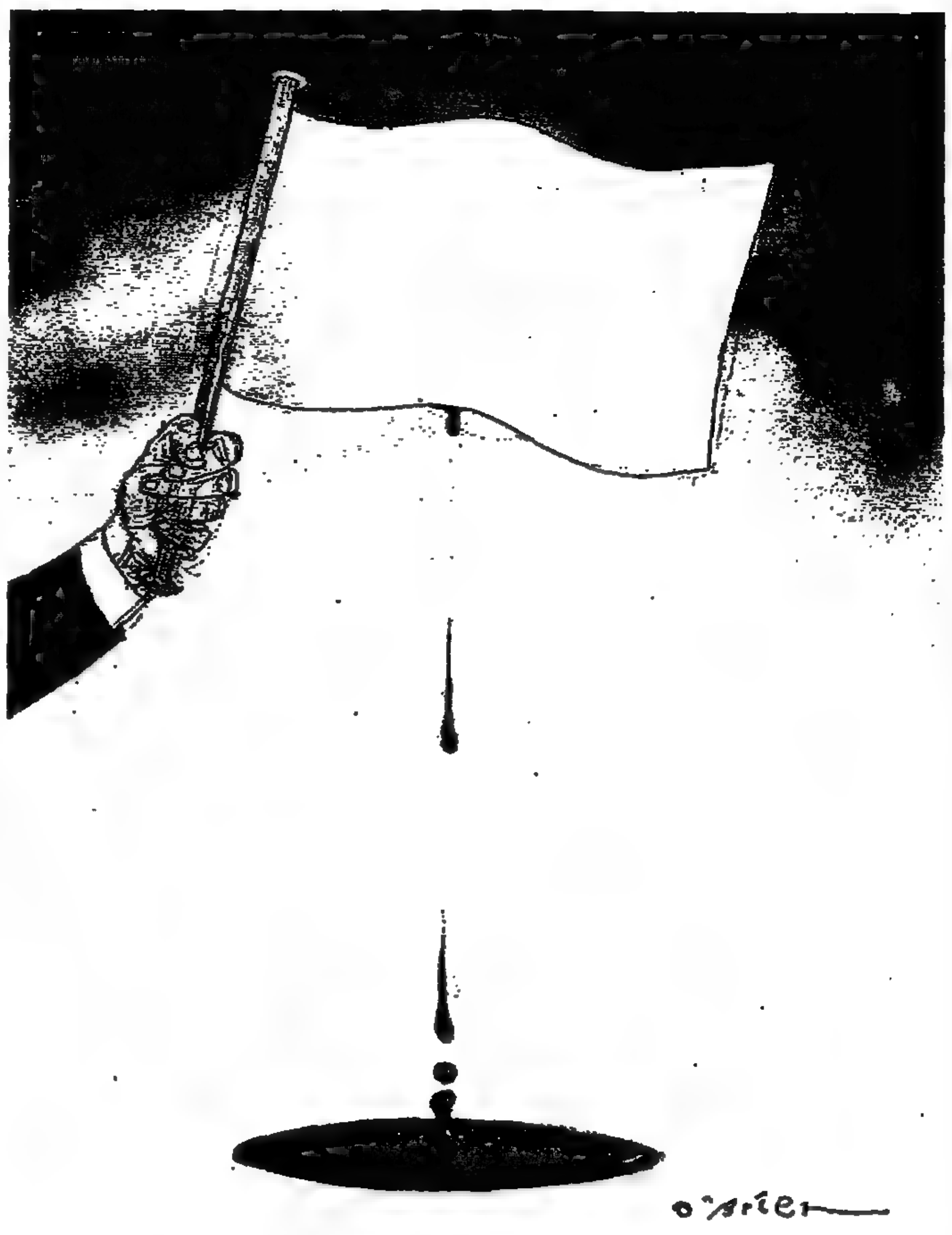
The vote was a devastating electoral indictment of the LDP's policies and performance and made yesterday's resignation of Ryutaro Hashimoto as prime minister inevitable.

Humiliating the election might have been, but the LDP stays in power. The election was for the upper house, whose powers are restricted (it cannot, for example, overturn a budget or pass a vote of no confidence in the government). The opposition remains incapable of mustering the two-thirds majority there to block legislation.

More important, the LDP still controls the lower house. Elections to that body need not take place until 2000, and after Sunday's result the LDP will not be in a hurry to bring them forward.

Nevertheless, the election could mark the beginning of the end of the LDP's stranglehold on Japanese politics which since the second world war has only once – in 1993 – been interrupted. On that occasion, the party lost power largely because of corruption scandals. It soon returned when the opposition proved too fractious to govern.

This time, however, the electorate is turning against the party not because of corruption but for a more fundamental failure: economic mismanagement and the inability to maintain living standards. This will be harder for the LDP to undo this perception and the party could face political oblivion if the result of Sunday's upper-house vote were repeated in the 2000 election.



The implication is that the party will have to replace Mr Hashimoto with someone willing to act promptly and decisively on the economy – something Mr Hashimoto was blamed for not doing. This means getting to grips withy Japan's worst recession since the second world war.

The need for a radical policy shift is urgent. Next year, Japan's economy could record its third year of falling nominal gross domestic product. That would be a worse performance than that during the Great Depression of the early 1930s, says Nikko Research, the Japanese brokerage.

That dismal performance is likely despite the government's Y16,000bn ($114bn) spending package announced this summer. So far, public spending has failed to reflate the economy, and there is no help from the private sector where demand continues to collapse. In manufacturing, for example, machinery orders last month were nearly 30 per cent lower than they had been a year earlier. Consumer demand – hampered by record unemployment – remains lacklustre. So do exports. Hit by the Asian economic crisis, they are actually falling.

Given the scale of the economic crisis, the LDP needs to act fast to find a credible replacement for Mr Hashimoto. If it does not, the markets could punish the country. Although the Nikkei 225 benchmark index rose 1.7 per cent yesterday on news of the prime minister's resignation, the yen fell sharply in early trading to Y144 against the dollar, before recovering to just below Y142. The Japanese currency is likely to prove vulnerable until a new prime minister is chosen.

That vulnerability could have devastating effects on Asian equities markets which tumbled across the board yesterday on fears that a weaker yen could damage their competitiveness.

Parts of the LDP appear to recognise the need for speed. "We want to decide [on Mr Hashimoto's successor] soon because this is an emergency," noted Koichi Kato, secretary-general of the LDP. He indicated the party could select a new leader by next Tuesday. By Japanese standards that would be lightening fast. However, other LDP politicians, such as Kanezo Muraoka, chief cabinet secretary, sowed confusion – typical of the party in recent months – by saying a decision might not be made until the end of the month. The markets are unlikely to be impressed.

Regardless of when the choice is made, the bigger question is who should be chosen. It might seem relatively easy to improve on a man who narrowed his range of policy options by ruling out significant tax cuts to boost consumer spending. Actually, it might not be.

The country needs a prime minister who is more than a figurehead and someone who does not just talk big but is able to deliver, says Kenneth Landon, economist at Deutsche Bank in Tokyo. It must also be a man – there are no viable female candidates in the LDP – who understands the economy.

Such an individual may not exist within the ranks of the LDP. The leading candidate is someone who falls into the "business as usual" category. Keizo Obuchi, the foreign minister, is a likeable, honest and hard-working politician from the largest faction in the LDP. He is described by Russell Jones, strategist at Lehman Brothers in Tokyo, as "Hashimoto with a charisma by-pass". His ability to implement radical reform would be limited.

The LDP needs to act fast to find a credible replacement for Mr Hashimoto

A more dynamic candidate would be Seiroku Kajiyama, the chief cabinet secretary, who has repeatedly criticised Mr Hashimoto and his fiscally strict economic policies and called for massive public investment. But he remains something of a maverick, having proposed increasing interest rates to boost the return on savings. That might seem a worthy ambition, but it would have a devastating impact on Japan's heavily indebted corporate sector.

There remains the most internationally-minded of the possible candidates and the choice probably most favoured by the markets, Junichiro Koizumi. A fluent English speaker, he would be able to develop Japan's crucial relationship with the US. Although presently health minister – having cleaned up the ministry after it was hit by a scandal over blood tainted by HIV, the virus that causes Aids – he is an outsider and has been unusually outspoken against Mr Hashimoto's government. His ability to break the mould of Japanese politics is unrivaled among LDP leaders.

Even if the LDP does choose a dynamic figure, he must then end the policy paralysis that stymied much of Mr Hashimoto's premiership. At the top of the markets' and most outsiders' wish-list is a firm commitment to end the obsession of Mr Hashimoto with the budget deficit.

The prime minister's decision last year to increase taxes and cut public spending contributed greatly to the recession. "The LDP will have to reverse policy in order to overcome this crisis," points out Minoru Morita, a political analyst. "Mr Hashimoto's successor will have to be someone who can adopt an expansionary fiscal policy, boosting spending and cutting taxes," he says.

Also required will be an undertaking to push banking reform further. So far, the LDP has pledged to create a "bridge bank" which would wind up failed banks and maintain lending to healthy borrowers. However, implementation will be critical. For the bridge bank to work, the politicians will need to demonstrate a willingness to make unpalatable decisions such as forcing the merger or even closure of failing institutions. Such determination has so far been lacking. Koji Tanami, vice-finance minister, says: "Whatever the situation, the economic issue is the big issue. It is our duty to implement the economic package and the plan to revive the financial sector."

Although the new prime minister will have a window of opportunity to push through such reforms, the markets are likely to be unforgiving if he stumbles. "With the markets at an expectant level, the politicians have to deliver," explains Pelham Smithers, strategist at ING Barings in Tokyo.

The LDP cannot afford such a stumble. This is probably the party's last chance to stay in government. It has little more than two years before the next lower house elections to turn around the economy and regain the confidence of the electorate.

The party must raise its performance not least because a more coherent opposition may now be emerging. In the past, it could count on an ineffective and disjointed opposition. But Sunday's elections saw the rise of a potentially powerful political force – the Democratic party which was only formed three months ago.

Pre-election opinion polls suggested the party would be among the also-rans. In the event it became the second largest party in the upper house after the LDP. "The result shows that the people have sent a red card to the Liberal Democratic party," said Naoto Kan, its charismatic party leader.

His grouping remains small; it has has 47 upper house seats compared with the LDP's 102, and 92 lower house seats against the LDP's 263. But the Communist party said yesterday it was prepared to support Mr Kan. The electorate may soon have a real choice for the first time in years.

Yesterday, ordinary Japanese seemed shocked by the scale of the LDP's defeat and the speed of Mr Hashimoto's departure. Many were astonished at the power of the electoral process, even though many voters, particularly among traditional LDP supporters, will have felt freer to vote against the ruling party in the knowledge that the upper house has less influence over government than the lower.

The public's reaction was in stark contrast to recent elections. Turnouts have been falling consistently (to just 44.5 per cent in 1995), as a result of growing disillusionment with the political process and the apparently unshakeable rule of the LDP. On Sunday, the turnout was 59 per cent. The electorate has tasted the power of democracy to create havoc among a complacent political class. It is a flavour voters may come to relish.

OBSERVER

Whiskering campaign

Pakistan prime minister Nawaz Sharif appears to have something of a feline fixation. It did him proud last year when he won the general election fighting under the lion symbol of the Pakistan Moslem League. Purring with success, Sharif pledged to make Pakistan another "Asian tiger" – a species that, even then, was looking increasingly mangy.

So it isn't too surprising to see Sharif back among the big cats: as equity and currency markets collapsed and the port city of Karachi was torn by factional strife, there was the premier posing for pictures with a tiger cub, which had been caught in a remote, mountainous area and taken to Islamabad to be cured of a still unspecified illness.

To prove that Pakistan's leader is a caring kind of a guy, officials say that, once the cub recovers, Sharif will fly into the wilds to supervise its release into the forest.

The cub may have to wait for its release, as its recovery is likely to take place before the Pakistan economy's. After all, as his finance ministry is no doubt telling him, there is very little left in the kitty.

Delhi dispatch?

Trying times for the grandiloquent and fiercely ambitious Sir David Gore-Booth, Britain's voice in New Delhi. He failed to win one of the plum Foreign Office postings, such as Washington or the United Nations, and some suspect that at 55 he's had enough of the performance reviews, flip charts and budget cuts that dictate life in the modern diplomatic corps.

India's ruling BJP hasn't warmed to him and the recent run-in over nuclear testing hardly helped; since returning from his London recall to his colonial bungalow on Rajaji Marg, he hasn't been granted top-level access to the government.

So will Gore-Booth, on leave in the UK, want to go on kicking his heels in the midday heat? There should be no shortage of companies ready to take him under their wing, given the effort he's made to help wave the flag for British business overseas – particularly all those defence companies who looked him up during his three years as ambassador to Saudi Arabia. In India, where he has worked hard to boost commercial links, BT and Rolls-Royce are among the big players.

Then again, he could just take himself off to Bill's Bar on Hydra, the Greek island close to his heart. Slaying multi-headed monsters would seem like a doddle after Her Majesty's diplomatic service.

Front line

Hungary's defence minister will have to be cool under fire as the country prepares to join Nato next year. So there was some surprise when the new coalition government appointed Janos Szabo, a 57-year-old MP from the Smallholders party, a minor platoon in the government alliance.

A lawyer, Szabo has no military experience and speaks neither English or French, the international defence community's main working languages.

Szabo's first salvo in his battle to reassure doubters missed the target. He issued a statement declaring that defence was a duty of all citizens – which only drew attention to the fact that he had avoided the hated compulsory military service. As a prosecuting lawyer, he didn't have to fall in to the ranks.

Then he told senior military officers that Hungary was not committed to joining Nato, a remark he later described as a slip of the tongue. The Hungarian troops are hoping for clearer marching orders.

Court short

Spare a thought for Visanu Chokthavee Sarp, a 42-year-old Thai national who has been sentenced to death in Vietnam on charges of fraud.

A court in Ho Chi Minh City heard that the accused had failed to pay for two export shipments of leather shoes worth $207,000, and for a shipment of cardboard boxes worth $250. He had also run up a phone bill of $770 and failed to pay either that or rent arrears of $280 by the time he was arrested in February last year. The total amount payable was $208,300.

This hard-line approach to trade financing doesn't seem to go all the way up to the supreme court in Hanoi. In a separate case, it has refused to enforce legal action by South Korea's Hyosung Corporation after a Vietnamese bank refused to honour a letter of credit. The amount in question is $4.5m.

Lawyers for the unfortunate Chokthavee are expected to allude to this case during his appeal.

Kids' stuff

Observer was pleased to see a new book by Austrian foreign minister Wolfgang Schüssel, written in a racy style that his long-winded colleagues in Brussels would do well to copy.

The 76-page child's guide to foreign policy is refreshingly clear of diplomatic doublespeak and starry-eyed visions of the European Union as it tackles issues such as human rights, the euro, religion, and the role of the Nato alliance.

We learn how long the Chinese need to work to earn enough to buy a Big Mac compared with the Russians; how many Austrians (230) share a single doctor compared to Guatemalans (2,358). There's even an exhortation to "enjoy the world" with recipes for gazpacho, pizza, and the famed Austrian torte.

It may never be a best-seller, but it's good to know that foreign policy can be child's play.

The Financial Times

100 years ago

The Bicycle Trade In Spain
Our Consul tells us in a report on the trade with Cadiz that most if not all of the bicycles imported into that region come from the United States, France and Germany. Our Consul is quite alive to the interests of British manufacturers, and assures them that it arises from no lack on the part of the British Consulate in urging on bicycle importers and bicyclists that British-made bicycles are as cheap as, and probably stronger, and therefore less liable to accidents, than German or American machines.

50 years ago

Strike On Paris Bourse
Paris, July 13. The Bourse to-day was affected by a strike by the employees of the agents-de-change as a protest against the closing by the authorities of several firms of brokers who have been losing money owing to insufficient business. Only the leading securities based on the so-called "Corbeille" (the central hall of the bourse) were dealt in by the agents-de-change themselves. The free foreign exchange market was closed. The pound and dollar jumped on the black market.

FINANCIAL TIMES
TUESDAY JULY 14 1998

THE LEX COLUMN

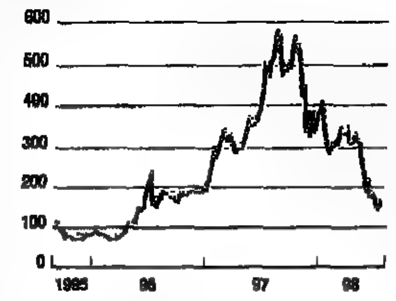
Rouble relief

So is the rouble off the hook? For now, yes. The $12.6bn IMF-led aid package for 1998 announced yesterday should give Sergei Kiriyenko's government a breathing space to put the public finances in order. Yields on government debt have fallen substantially on plans to dollarise the expensive short-term rouble debt that is damaging the fiscal position. The IMF has given bond and equity investors a perfect opportunity to exploit the moral hazard inherent in this package.

Russia, however, is not out of the woods. The downside of swapping rouble debt for dollar debt is the considerable foreign exchange risk. This may be regretted at leisure if the rouble eventually devalues. Getting the Communist-dominated Duma's approval of the anti-crisis package of tax reforms and spending cuts will not be easy either. While the IMF has not explicitly linked this to payment of the first $5.6bn tranche, any rejection would make it think twice before shelling out more. After all, without real progress on the structural problems of inadequate tax collection and non-payment, even this package will lose its impact.

Mr Kiriyenko's task should not be underestimated. Targeting a budget deficit of 2.8 per cent next year, against 5.6 per cent in 1998, implies a substantial fiscal tightening. With the oil price still stagnant and presidential elections on the horizon, curbing spending in this way will require strong nerves.

Russian equities
RTS index



Source: Datastream/ICV

Japan

Japan's voters have sent Ryutaro Hashimoto packing. But will change be for the better? Much will depend on who the new appointee is, and how he interprets his mandate. It is still too soon to know. What is clear is that the Japanese are fed-up with the recession Mr Hashimoto helped create, and then failed to remedy. They want recovery and relief. But do they want restructuring and reform? Japan needs both. Mr Hashimoto chose to focus on restructuring and perished because he did not deliver growth.

It is a fair bet that any successor will reverse these priorities. That means a relaxation of fiscal policy, including permanent tax cuts on top of the already agreed Y16,000bn stimulus package. The implications for asset prices looks clear: bad for bonds, good for equities. The slump in government bond yields to under 1.4 per cent was a bubble waiting to burst, and that now looks possible. Stocks should benefit from any growth which might fuel some earnings growth.

The yen, meanwhile, should stay below Y145 against the dollar so long as fears of central bank intervention persist. For now, those fears are realistic. The US, in particular, has every reason to resist the further downturn in Japan and Asia which a falling yen would spark. But that task will fall mainly to the new prime minister. He will need to shepherd growth without neglecting restructuring. As Mr Hashimoto learnt, one alone is not enough.

Chrysler

Chrysler's record second-quarter results should make pleasant reading in Stuttgart, headquarters of its prospective parent Daimler-Benz. While European car sales have been surprisingly resilient this year, the US is roaring ahead. Chrysler's factories are working at over 90 per cent capacity and its sales, led as ever by jeeps and light trucks, jumped 14 per cent between March and June.

There are special factors at work. While underlying demand is decent, this year's volumes have been boosted by a costly increase in discounts and cash-back deals. At Chrysler, incentives per vehicle have soared by more than half to $1,485 and are now – alarmingly – 40 per cent higher than its profit per unit. To date, the carmaker has squared the circle by cutting costs even faster than incentives have risen. But this is hardly a sustainable strategy.

Happily, some relief is in sight. Incentives should fall as strike-hit General Motors cuts back on aggressive marketing. That should enhance margins, even if volume growth tails off too. Second, the DaimlerChrysler merger will allow another round of savings – with Chrysler hinting they might even exceed the initial $3bn target. Meanwhile, Chrysler is furiously generating cash, aided by the merger-enforced halt to its share repurchases. Excluding its leasing business, its cash pile is now up to over $9bn. They will be smiling in Stuttgart.

C&W/Telecom Italia

So Cable & Wireless' grand alliance with Telecom Italia is disintegrating? Well, not quite. The partnership may originally have been billed as the best thing since sliced ciabatta, but there was never that much to the grand alliance stuff. From C&W's perspective, the rhetoric always looked like a clever smokescreen to persuade Telecom Italia to part with $2bn of its cash in exchange for a string of the UK group's minority stakes. C&W will still get £456m for its shares in Bouygues Telecom now that the French group's other shareholders have exercised their pre-emptive rights. But it will be disappointed not to receive the remaining $1½bn to pop in its piggy-bank.

Moreover, the fact remains that both C&W and Telecom Italia lack effective international strategies. They may yet find a way of joining forces. But this will be complicated since the Italians are still linked with Europe's Unisource consortium which, in turn, has an alliance with AT&T. Unless AT&T leaves that grouping, there is probably no room for C&W. And the snag is that, although AT&T has not been a good partner for Unisource and Telecom Italia, C&W lacks the credible US presence the Europeans need from an ally. That defect would be partly remedied if the UK group manages to buy MCI's internet business. However, with AT&T and British Telecommunications apparently also in the bidding, C&W could be hard-pressed to do the deal without overpaying.

Fears of violence ease after peaceful N Ireland parade

By John Murray Brown in Belfast, Robert Wright in Drumcree and David Wighton in London

Fears of a violent confrontation over the banned Drumcree parade appeared to be receding last night as the climax of Northern Ireland's marching season passed off without incident.

New divisions emerged within the Orange Order over whether to continue the Drumcree protest, with scuffles between Orangemen breaking out at one parade in county Armagh.

UK government officials said contacts were being maintained with both Orangemen and the nationalist residents of the Garvaghy Road – the disputed part of the march's route – with the purpose of restarting the proximity talks aimed at resolving the dispute.

The spokesman for Tony Blair, UK prime minister, said: "What the last few days have shown is that the agreement and the peace process have survived and will have emerged strengthened from this."

As thousands of Orangemen commemorated the 308th anniversary of the protestant victory at the Battle of the Boyne, a minute's silence was held at parades to mark the murder of three young brothers in a sectarian firebomb attack at the weekend. As the Quinn family prepared to bury their three sons today, John Taylor, the deputy Ulster Unionist leader, repeated the plea to Orangemen at Drumcree to negotiate with the residents to end the impasse.

The crowd at Drumcree was much smaller than in previous days. But Harold Gracey, a local Orange Lodge official, insisted the protest would continue. He rejected suggestions that the demonstration had in some way contributed to the boys' deaths.

"They gave it out as a sectarian murder, but there's some doubt about that. The true facts will come out before long, and when they do come out we will be asking for an apology from the Chief Constable and everyone else," he said.

Supporters of the Drumcree protest heckled the Rev William Bingham, the deputy chaplain of the Order, accusing him of betraying the Portadown lodge after he suggested they should end their protest in the wake of the murders.

In Belfast, fears of a confrontation over the Orange Order's march down the Lower Ormeau Road failed to materialise, with nationalist residents lining the pavement in silence carrying black flags and posters decrying "the parade of shame".

At the main commemorative event in Belfast, Robert Saulters, the Grand Master, urged Orangemen to take a constructive role in the new National Assembly. He called for unionist unity and warned "splintered unionism is no match for a tightly knit nationalism".

Jeffrey Donaldson, the Ulster Unionist MP who defied the party leadership by opposing the Good Friday agreement, also called for a new unionist alliance.

Meanwhile, in Newry police conducted a control explosion on a suspected car bomb outside the town's court house.

A turning point, Page 14

Malaysia predicts recession this year as Asian crisis bites

By Sheila McNulty in Kuala Lumpur

Malaysia plainly admitted the impact of the Asian crisis yesterday when it said its economy would slip into recession this year.

Anwar Ibrahim, finance minister, said gross domestic product would contract by 1 to 2 per cent, in stark contrast to the 2 to 3 per cent growth forecast earlier this year.

Malaysia's economy had grown 7.8 per cent last year but contracted 1.8 per cent in the first quarter this year, its first decline in 13 years.

"These developments have made it imperative for the government to take immediate action to revive the economy," Mr Anwar said.

The severity of the slowdown has startled the most bearish economists and prompted Mahathir Mohamad, the prime minister, to dismantle an earlier austerity package introduced by Mr Anwar.

In a snub to his finance minister, he also recently announced M$12bn ($2.8bn) in new spending to revive the economy, and elevated Daim Zainuddin, his chief economic adviser, to a ministerial post overseeing the economy.

"It is an admission that the problem on hand is worse than they let on," said Song Seng Wun, regional economist at GK Goh Research.

Mr Anwar yesterday unveiled a "special purpose vehicle" to recapitalise the troubled banking sector, which he said needed up to M$16bn this year and next. But economists said M$40bn was a more reasonable estimate. Bank Negara, the central bank, would spearhead the initiative by providing initial capital and inviting multilateral agencies to "play an active role". He did not indicate whether this meant appealing to the International Monetary Fund, an option the government has resisted.

Mr Anwar said Malaysia's corporate sector had "deteriorated significantly" and it was necessary to restructure all corporate debt. He announced the creation of a Steering Committee to identify which companies were worth supporting. The plan would require banks to continue providing credit, even if a company is facing difficulties. But many bankers said they could not continue to extend loans – despite political pressure – if they were to survive.

Mr Anwar, who is also deputy prime minister, hinted at a possible relaxation of restrictions on foreign corporate ownership. "The government may review the procedures related to foreign ownership and participation in some of the large corporations, to facilitate the restructuring process," he said.

Economists said the government would have to liberalise restrictions on foreign ownership of banks in particular, but Dr Mahathir believes this should be a last resort.

Manufacturing output declined 5 per cent in the first five months of the year. Exports, in US dollar terms, declined 10.3 per cent in the period and credit growth slowed from 30.4 per cent at the end of June 1997 – just before the crisis began – to 12 per cent at the end of May.

Some private sector economists predicted the economy would contract by up to 5 per cent this year.

Editorial Comment, Page 15

CONTENTS

France's World Cup victory over Brazil sparked wild celebrations, not least in central Paris. World Cup reports, Page 12 Picture: Reuters

FT.com
FINANCIAL TIMES

Directory of online services via FT Electronic Publishing

FT.com: the Financial Times web site: online news, comment and analysis.
http://www.FT.com

The Archive: online archive of back issues of the newspaper since July 1996.
http://www.archive.FT.com

Newspaper subscriptions: information, offers and online ordering.
http://www.ft.com/newspaper/subscribe.htm

FT Annual Reports Service: online ordering of annual or interim reports and accounts of 1200 UK plcs
http://www.ft.com/newspaper/222a.htm

Cityline: how to get share prices and market reports by telephone and faxback.
http://www.ft.com/newspaper/2176.htm

Surveys: details of forthcoming editorial surveys.
http://www.ft.com/newspaper/2366.htm

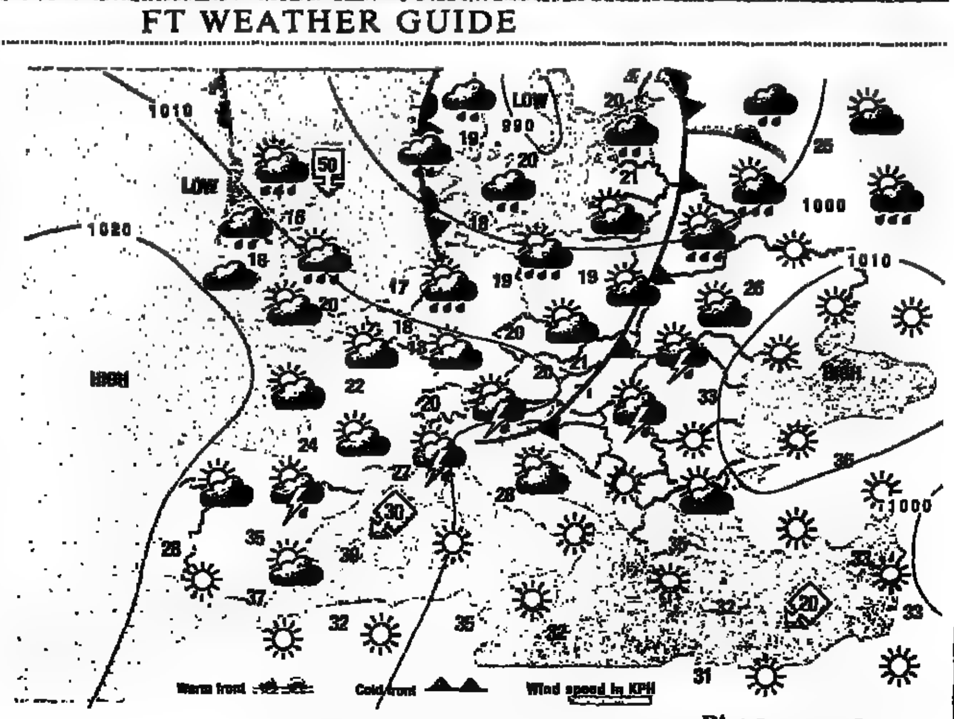
FT WEATHER GUIDE

Europe today

A cold front moving south-eastwards across central Europe will introduce cooler air and showers, with the Pyrenees and Alps seeing some notable thunderstorms. France, Germany and the Low Countries will be drier with sunny spells, although northern areas will be cool and breezy with a few showers. Most of the Mediterranean will remain hot and sunny.

Five-day forecast

Thunderstorms will spread eastwards across the Balkans and south-east Europe tomorrow but fresher air and sunny skies will follow from the Mediterranean. North-western Europe will remain unsettled up to the weekend. A new low pressure system will form over the Ukraine on Thursday, swinging north towards the Baltic states on Friday.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	40
Accra	Cloudy	28
Algiers	Sun	32
Amsterdam	Shower	17
Athens	Sun	35
Atlanta	Thunder	25
B. Aires	Sun	20
B.ham	Fair	18
Bangkok	Shower	35
Barcelona	Cloudy	28
Beijing	Rain	29
Belfast	Shower	17
Belgrade	Sun	31
Berlin	Shower	19
Bermuda	Fair	30
Bogota	Fair	19
Bombay	Cloudy	33
Brussels	Fair	19
Budapest	Shower	21
C.hagen	Shower	18
Cairo	Sun	35
Caracas	Fair	31
Cardiff	Fair	18
Casablanca	Fair	26
Chicago	Fair	33
Cologne	Shower	19
Dakar	Fair	28
Dallas	Fair	38
Delhi	Cloudy	34
Dubai	Sun	42
Dublin	Cloudy	18
Dubrovnik	Sun	30
Edinburgh	Drzzl	19
Faro	Sun	30
Frankfurt	Fair	21
Geneva	Fair	20
Gibraltar	Sun	32
Glasgow	Shower	16
Hamburg	Rain	18
Helsinki	Shower	20
Hong Kong	Shower	32
Honolulu	Fair	31
Istanbul	Sun	32
Jakarta	Cloudy	30
Jersey	Fair	18
Johannesburg	Fair	18
Karachi	Fair	38
Kuwait	Sun	45
L. Angeles	Sun	25
Las Palmas	Sun	29
Lima	Cloudy	21
Lisbon	Fair	28
London	Fair	20
Luxbourg	Cloudy	18
Lyon	Fair	22
Madeira	Sun	27
Madrid	Sun	35
Majorca	Fair	30
Malta	Sun	32
Manchester	Rain	17
Manila	Shower	34
Melbourne	Shower	14
Mexico City	Fair	27
Miami	Thunder	34
Milan	Thunder	29
Montreal	Fair	32
Moscow	Rain	25
Munich	Shower	21
Nairobi	Fair	23
Naples	Sun	31
Nassau	Shower	33
New York	Sun	33
Nice	Fair	27
Nicosia	Sun	38
Oslo	Thunder	19
Paris	Fair	22
Perth	Fair	17
Prague	Shower	20
Rangoon	Drzzl	33
Reykjavik	Fair	14
Rio	Cloudy	19
Rome	Fair	28
S. Frsco	Fair	22
Seoul	Fair	27
Singapore	Thunder	33
Stockholm	Shower	20
Strasbourg	Fair	21
Sydney	Cloudy	14
Tangier	Sun	26
Tel Aviv	Sun	33
Tokyo	Fair	26
Toronto	Fair	31
Vancouver	Shower	21
Venice	Rain	26
Vienna	Rain	20
Warsaw	Shower	19
Washington	Fair	31
Wellington	Cloudy	12
Winnipeg	Fair	32
Zurich	Shower	20

هكذا من الأصل

هكذا من الاصل

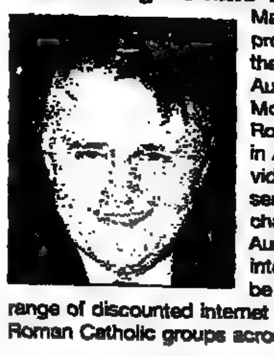
FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1998 — TUESDAY JULY 14 1998 — Week 29

INSIDE

Two Caribbean airlines fly into financial turbulence

Two Caribbean airlines have hit a patch of financial turbulence. The chairman of BWIA, Trinidad and Tobago's carrier, has had to put up his own money to pay staff. Meanwhile, the Jamaican government has taken over $114m of Air Jamaica's debt to keep the airline flying. Page 18

Catholics go online with OzEmail



Malcolm Turnbull (left) is probably best known as the co-founder of the Australian Republican Movement. But to the Roman Catholic church in Australia he is a provider of cheap internet services. Mr Turnbull is chairman of OzEmail, Australasia's leading internet group, which will be delivering a broad range of discounted internet services to the 6,000 Roman Catholic groups across Australia. Page 21

Deregulation boosts US butter prices

Deregulation of the US dairy sector is set to hit consumers' wallets. In contrast to the sagging prices of grains and meat products, butter has risen to record highs. At $1.98 a pound, butter is trading at almost double last year's level. Page 26

Gallaher set to launch eurobond

Gallaher Group, the UK cigarette manufacturer, is poised to launch a DM500m eurobond. It would become the fourth tobacco company to tap the capital markets in as many weeks. Page 24

Karachi investors fear default

The mood on the Karachi stock market is downbeat, largely because investors are bracing themselves for Pakistan's first sovereign default on its $42bn foreign debt. Analysts say resistance from the Group of Seven to continue an International Monetary Fund loan programme is causing much of the pessimism. Page 36

Kenya Airways slide hits confidence

A 40 per cent slide in the stock price of Kenya Airways, the African carrier in which KLM holds a 26 per cent stake, has knocked the confidence of local investors. The airline's executives are expecting tough questions when they meet international shareholders in London this week. Page 20

Wall Street curbs Dax advance

Shares in Frankfurt returned to their record setting ways although the dull early performance on Wall Street kept a cap on the advance. Page 36

India lowers duty on edible oils

India has moved to control runaway prices of coconut oil by lowering the import duty on most edible oils to 15 per cent. It is also asking the state trading corporation to import 150,000 tonnes of palm oil from Malaysia and Indonesia. Page 26

COMPANIES IN THIS ISSUE

CROSSWORD, Page 26

MARKET STATISTICS

Telecoms tie-up suffers setback

C&W, Telecom Italia hit as deals collapse

By Alan Cane in London and James Blitz in Rome

The three-month-old alliance between Cable and Wireless of the UK and Telecom Italia suffered a blow yesterday when a series of pre-arranged deals between the two which would have underpinned the partnership collapsed.

Telecom Italia confirmed that it had withdrawn from agreements to take a 20 per cent stake in C&W West Indies and a five per cent stake in the UK group's North American operations.

At the same time, C&W admitted that it was unable to sell Telecom Italia its 20 per cent stake in the French mobile operator Bouygues Telecom, as agreed.

Bouygues SA, Bouygues Telecom's principal shareholder, effectively blocked the agreement by exercising its pre-emptive rights to the C&W stake.

The reverses left analysts questioning the future of the alliance. It had been designed to exploit synergies between the companies' global networks, but appeared to lack strategic focus.

C&W said that the decisions would not damage the partnership which was "progressing well". Telecom Italia also insisted that the accord had not been diminished.

The Italian group said the partnership, forged last April, had been based on creating a global network and marketing alliance with the possibility of taking a direct stake in some parts of the C&W group.

"Our decision not to take up the shares reflects our determination to concentrate on the broad architecture of the alliance we are setting up."

But the decision not to go ahead with the investments, worth about £1bn, is a new embarrassment for Telecom Italia following a boardroom upheaval last month, which has yet to be resolved.

Yesterday, a senior Telecom Italia executive tried to play down any embarassment for the company over the decision.

"There was a temptation by some people to see the purchase of stakes in these companies as though they are part of some grand and elaborate scheme," he said.

"But the strategy here is to look at individual deals when they come up and go ahead with them if, and only if, they make sense."

The sale of C&W's stake in Bouygues Telecom to Telecom Italia would have brought the Italian company's stake up to about 30 per cent.

C&W has now offered Bouygues Telecom's shareholders its stake for £456m in cash plus interest and other commitments, the same price that Telecom Italia has been prepared to pay.

It seems likely that the shareholders, which include BDT, a Bouygues-led consortium including Telecom Italia, Veba of Germany and Paribas, will accept.

C&W and Telecom Italia said under their alliance they would seek synergies in the management of their international networks for the benefit of international customers.

The alliance was not exclusive or underpinned by an exchange of equity. The informal nature meant decisions could be made with a speed suited to the fast-changing market, Mr Brown and Mr Rossignolo emphasised at the time.

Telecom Italia has continued to talk to other potential partners including AT&T of the US and Unisource, a European alliance.

Lex, Page 16
Alliance in balance, Page 22

CARMAKER OPENS DETROIT REPORTING SEASON WITH SALES THAT REFLECT KEEN MARKETING AND US CONSUMER CONFIDENCE

Chrysler earnings set fast pace

By Haig Simonian in London and Nikki Tait in Chicago

The second quarter reporting season for US carmakers got off to a sparkling start yesterday with Chrysler, smallest of Detroit's "Big Three", revealing record earnings per share and demonstrating the benefits of a burgeoning economy and buoyant consumer confidence.

With sales thriving on the back of strong macroeconomic fundamentals and determined marketing, Ford and General Motors may have a similar story to tell when they report later this week. Only the entrenched labour dispute at GM, which has now idled almost 170,000 workers, has soured the scene.

Sales of light vehicles jumped 12 per cent in May, year on year, leading many forecasters to upgrade predictions for the year. With June's figures as strong, annualised sales are running ahead of last year.

The boom has been fuelled by attractive new products and enticing financing packages. Motown has responded to the appetite for sports utility vehicles – still the fastest growing sector of the market – by coming up with even beefier vehicles.

The carmakers have also reinforced marketing efforts by offering ever-higher financial incentives. The biggest impact in recent weeks came through loyalty coupons introduced by GM and then mimicked by rivals. Mailed to existing or previous brand owners, they offered discounts of up to $1,000 on top of those already available from dealers.

Bob Eaton, Chrysler's chairman, said he believed the outlook remained "favourable" for the rest of this year.

The company is currently running at about 93 per cent of capacity (including overtime availability), a figure it expects to maintain for the year.

Such buoyant output will be welcomed by shareholders of Daimler-Benz, the German group which is to buy Chrysler in the industry's biggest merger.

Competition among the carmakers has intensified the marketing drive. The average US retail incentive on Chrysler's vehicles climbed to $1,485 in the second quarter, up from the already-high level seen in the first quarter and well above the $880 in the second quarter last year.

The fact that such vertiginous spending has not dented profits is attributable largely to the growth in demand for sports utilities.

Big vehicles such as Ford's Explorer, GM's Suburban or Chrysler's new Durango provide fat margins – so much so that each manufacturer is believed to be planning even bigger and more profitable behemoths.

Profits have also been boosted by cost reductions. Although Ford has led the pace, wildly exceeding its cost-cutting forecasts, Chrysler and GM have hardly been inactive. Chrysler cut a further $400m-$500m of costs in the second quarter after a $400m reduction in the first three months of the year.

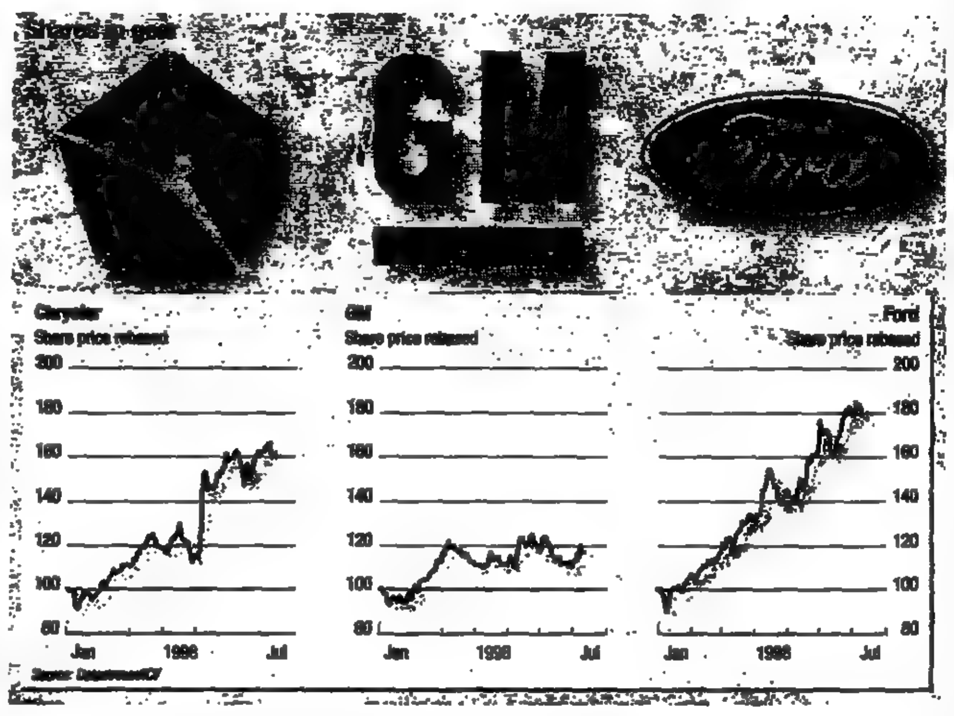
However, the carmakers do face some uncertainties. Mr Eaton said Chrysler would "continue to watch the market closely" as US economic growth slowed and clouds lingered over Asia.

Spiralling incentives are another worry. The carmakers are crossing their fingers these will decline in the second half of the year. Chrysler expects incentives for the rest of the year to be "in the range of the first quarter" at around $1,200 per vehicle, according to Gary Valade, finance director.

The impact of GM's strike is the other imponderable. The dispute could start to dent sales as its financial impact starts to bite into the spending power of its employees and those of its suppliers.

Untroubled by the Asian crisis or GM's more local ructions, Wall Street remains bullish about the outlook. Analysts poring over Chrysler's numbers have already pencilled in full-year earnings per share of around $5.19 on average, according to the First Call research firm.

That would compare with $4.09 (excluding special items) last year, which was affected by industrial action and product launches. With the mood firmly upbeat, further such recalculations may follow.



Lex, Page 16
GM to recall 1m cars, Page 6
First half tops $2bn, Page 18

Boeing admits to problems with 747 production

By Michael Skapinker, Aerospace Correspondent

Boeing, the US aircraft maker, says it is experiencing difficulties with its 747 production line. The admission comes just two weeks after Boeing announced its manufacturing crisis was over.

The crisis led to Boeing suspending production of the wide-bodied 747s for a month last year while workers caught up with delayed assembly work. Production of the narrow-bodied 737s was also suspended. Boeing had to make provisions of $1.6bn last year to take account of the difficulties, helping to push the group into a net annual loss of $178m – its first in 50 years.

Boeing said yesterday that the manufacture of its four-engined, 400-seat 747 was again under strain because of changes in the production process and an increase in the number being built each month. The group is building four 747s a month. This will increase to five at the beginning of next year, before falling back to 3.5 in the second half of 1998.

Boeing said difficulties had also been caused by a decision to manufacture 747 passenger and freighter models on the same production line.

Ron Woodard, head of Boeing's commercial aircraft division, said this month that the group had largely achieved its aim of stabilising production. Boeing built 148 aircraft in the second quarter of this year compared with 114 in the first quarter. The group delivered 139 aircraft in the second quarter compared with 108 in the first quarter.

Boeing also said yesterday it had decided to raise the list price of most of its aircraft by 5 per cent – the first such increase in 23 years. The increase will apply to all aircraft except the new narrow-bodied 717 whose price will be unchanged, and the 737-600, whose price will increase by 10 per cent. Boeing said its aircraft would still be cheaper than those offered by Airbus Industrie, its European rival.

However, few airlines pay the list price. Carriers placing orders of any size usually win discounts, particularly where Boeing is in competition with Airbus.

Intel denies FTC charge of microchip monopoly

By Louise Kehoe in San Francisco

Intel, the world's largest chipmaker, yesterday hit back at Federal Trade Commission charges of using "monopoly power" to limit competition in the global market for microprocessor chips.

The company denied it monopolised any market or that it had used unfair tactics in its dealings with computer companies in an effort to maintain a monopoly.

The FTC, in an antitrust complaint filed last month, said Intel had denied three computer companies – Compaq Computer, Digital Equipment and Intergraph – access to technical information they needed to develop computer systems based on Intel chips. The FTC further alleged that Intel was out to "punish them for refusing to license key patents [to Intel] on Intel's terms".

Intel's withdrawal of access to advanced information on new microprocessor chips damaged the ability of these companies to remain competitive, the FTC said.

Intel said in its response that it took only "reasonable, measured steps under the law and its contracts to protect its intellectual property and its core business" when it became involved in legal disputes with the computer companies.

The disputes with Compaq and Digital had been settled privately and the third, with Intergraph, was currently in litigation, Intel said. "In none of these cases did Intel deny anyone a supply of microprocessors or any other product," Intel insisted.

The company also denied that its actions had harmed competition, in violation of antitrust laws, and said it had an absolute right to refuse to license or share its intellectual property with third parties.

In contrast to Microsoft, the software industry leader also facing antitrust charges, Intel has so far avoided raising in its defence broad issues such as its right to innovate, its importance in the US economy or the benefits of its products to consumers.

The chipmaker has based its defence on legal issues. It says the issues are private and have no adverse effect on public interests.

Hearings are due to begin on January 5.

Sonera, Telia step up Baltic push

By Greg McIvor in Stockholm

Sonera, the state-owned Finnish telecoms utility, and Telia, its Swedish counterpart, yesterday stepped up their assault on the Baltic market.

They teamed up to buy a 55 per cent holding in UAB Omnitel, Lithuania's biggest mobile phone network operator.

They will acquire the stake from the Lithuanian subsidiary of US group Motorola, the world's largest supplier of cellular phones, and the Kazickas family.

Financial details were not disclosed, but Motorola and the Kazickas family will retain a 45 per cent interest in Omnitel. Sonera – the former Telecom Finland – and Telia will have equal stakes.

Victor Gruodis, Omnitel chief executive, said the backing of "two companies from countries with almost 50 per cent penetration will help us to achieve higher growth rates".

The deal strengthens the two Nordic groups' collaboration in the fast-growing and highly profitable Baltic telecommunications market, where they are the largest foreign network owners and operators.

In June, the pair joined forces to purchase a 60 per cent stake in Lietuvos Telekomas, the former state monopoly operator.

Last month Sonera also bought a 63 per cent stake in Lattelekom, the Latvian national operator, from Cable & Wireless of the UK.

Sonera and Telia each have stakes of 24.5 per cent in Eesti Telefon and Estonian Mobile Telephone, a joint venture with Estonia's state telecommunications company, and a similar stake in Latvian Mobile Telephone.

Expansion in the Baltic states, where cellular phone subscriptions are growing rapidly, and Russia is important for Telia and Sonera.

As former domestic monopoly service providers, they have had to look abroad for growth to offset competition at home, although Sonera said it had no immediate plans for further Baltic acquisitions.

SATELLITES US GROUP LIFTS OPERATING PROFITS 36.5% AS REVENUES CLIMB

Hughes Electronics ahead in second quarter

By Christopher Parkes in Los Angeles

Operating profits at Hughes Electronics, the leading US satellite group, jumped 36.5 per cent to $78m in the second quarter as revenues increased 19 per cent and profit margins rose from 5 per cent to 5.7 per cent.

Net income, after excluding a one-off gain associated with last year's PanAmSat merger, was 14 cents a share, compared with 1 cent.

The group recorded strong sales growth in all three main divisions, with its DirecTV direct-to-home satellite television service reporting record domestic subscriber growth in June.

DirecTV gained 227,000 new US customers in the quarter for a total of 3.76m, and added 49,000 in Latin America, where the service now has almost 390,000 subscribers.

Domestic growth was the main factor behind the division's 43 per cent revenue increase to $402m and a drop in the operating loss from $48m to $40m. Losses from the US service shrank to only $7m, compared with $32m last year.

Progress with the satellite television service suggests that the US business, which is the most successful so far of the four companies in the market, is approaching break-even as the effects of a price-cutting campaign by rival EchoStar start to wear off.

Michael Smith, chief executive, said the "solid" performance was in line with Hughes' expectations, which were enhanced by the addition of PanAmSat to its satellite services division.

Revenues in this division were up 43 per cent to $191m and operating income improved 18 per cent to $74m.

Satellite manufacturing, which reported a more modest 11.5 per cent operating income gain to $60m, generated a 15 per cent increase in revenues to $675m.

Network systems, the smallest division, which provides satellite telephony services, was hit by the bankruptcy of a customer, which necessitated a $26m provision for associated losses.

As a result, the operating deficit widened from $1m to $25m on revenues up from $211m to $222m.

Salomon appoints Europe co-chiefs

By Clay Harris, Banking Correspondent

Salomon Smith Barney, the US investment bank, has appointed co-chief executive officers for Europe, one from each side of its family tree, to succeed the departing Peter Middleton.

One of the two is Ron Freeman, Salomon's London-based joint head of investment banking, a business he will continue to oversee. A 25-year veteran of Salomon Brothers, he took six years out in the 1990s as first vice-president at the European Bank for Reconstruction and Development.

The other is Jim Boshart, vice chairman and co-head of investment banking at Smith Barney at the time of last year's deal in which its parent, Travelers Group, bought Salomon.

Their joint leadership of the European business echoes the power-sharing at the top of the global investment bank between Salomon's Deryck Maughan and Smith Barney's Jamie Dimon.

Salomon Smith Barney said there were no plans to allocate specific roles between them. Mr Maughan said: "I expect them to be full partners, and I think they will hit it off very well." He and Mr Dimon said they expected the new team to lead the bank's European business, not only through Travelers' planned merger with Citicorp, but for five to six years.

Mr Freeman has worked in Europe since 1989. Most of Mr Boshart's experience is in the US, but he headed the London office of Lehman Brothers, one of his previous employers, nearly two decades ago.

Mr Boshart, who joined Smith Barney in 1990, had run its public finance and capital markets departments. Previously, he was president of Stamford Company, an investment banking boutique, and chief administrative officer at Lehman.

Earlier this month, Mr Middleton, who had been Salomon's European chief executive since November 1995, announced an "absolutely amicable" exit at the end of July. Previously chief executive of the Lloyd's *insurance market*, Mr Middleton joined as an outsider with no experience of investment banking management, which may have affected his influence within the bank.

Strong US demand lifts Chrysler to $1bn

By Nikki Tait in Chicago

Chrysler, the smallest of the "Big Three" US carmakers, cruised in with first-half earnings well above analysts' *expectations* yesterday, reporting an after-tax profit of $1bn in the second quarter and $2.06bn for the first six months of 1998.

The Detroit carmaker also said operational planning for its impending merger with Germany's Daimler-Benz was proceeding "ahead of schedule".

Gary Valade, Chrysler's finance director, said he was constrained from commenting fully because of Securities and Exchange Commission regulations, but "no significant issues have come up in the process so far".

Numerous meetings had taken place, both in Detroit and Germany, and "some of the players seem to be getting along very well", he added. Chrysler and Daimler plan to send formal documents to shareholders this summer, and hold simultaneous votes on the merger plan on September 18.

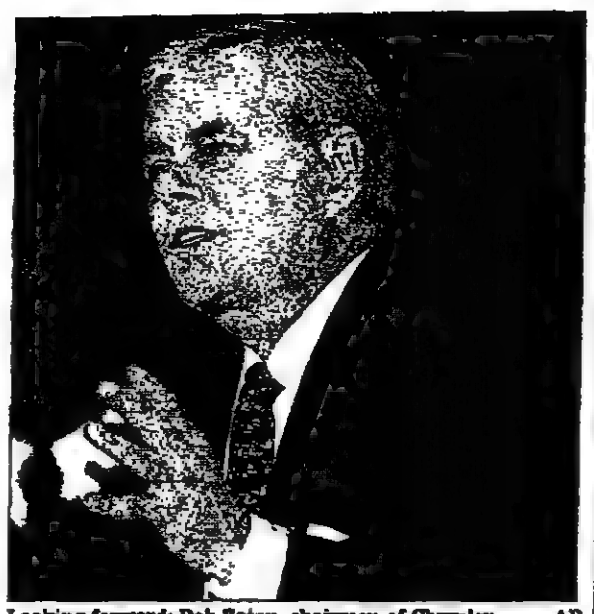
The second-quarter result compared with $484m in the same period of 1997, but that included the effect of a 29-day strike, which knocked about $730m off the result at the pre-tax level.

The latest result translates into record earnings per share of $1.51 on a fully diluted basis. A year ago, the company made 71 cents a share. Analysts' forecasts had averaged about $1.41 for the latest quarter, according to the First Call research firm. Chrysler's shares rose $1¾ to $56¾ in early trading.

The result was driven partly by the strength of consumer demand – which, in turn, reflects the strong US economy. Total shipments worldwide were 849,369 units, up from 738,453 a year ago.

However, incentive levels remained high, actually increasing from first-quarter levels, and Chrysler said the earnings result also reflected continued cost-savings. The average incentive per vehicle was put at $1,485 in the second quarter, up from $980 in the same period a year ago. But Mr Valade said the company managed to squeeze out a further $400m-$500m of cost reductions, from lower material costs, manufacturing efficiencies and general expense savings.

Looking forward, Bob Eaton, Chrysler's chairman, said the industry outlook remained "favourable", although he warned uncertainty in Asia and slowing economic growth were potential dampers.



Looking forward: Bob Eaton, chairman of Chrysler AP

Meanwhile, Mr Valade *said he expected incentive* levels to ease back in the third and fourth quarters, to levels similar to those seen in the first three months of 1998, at perhaps $1,150-$1,200 a vehicle.

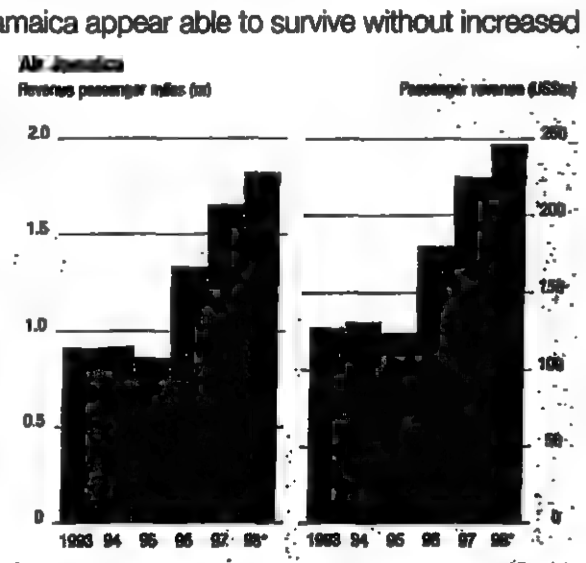
The suspension of Chrysler's share repurchase plan, because of the Daimler deal, *means cash balances are* now at a record $9.2bn. Mr Valade said some of this might be used for internal investment and to develop unspecified new products.

Lex, Page 16

Caribbean airlines fly on a wing and a prayer

Neither BWIA nor Air Jamaica appear able to survive without increased government intervention, writes **Canute James**

Caribbean airlines have *hit a patch of financial* turbulence. The chairman of BWIA, Trinidad and Tobago's carrier, has had to put up his own money to pay staff, and the Jamaican government has taken over $114m of Air Jamaica's debt to keep the airline flying.



Both airlines were privatised recently, amid hopes they would become financially viable, yet neither appears able to survive without increased government intervention.

BWIA and Air Jamaica have been criticised by their respective governments for the way they have been managed since privatisation. But neither the companies *nor the governments appear* to consider renationalisation a viable option.

The governments maintain the airlines are essential for the region, particularly for tourism, providing seats on routes others will not.

The airlines' problems have been blamed mainly on high operating costs on routes of marginal profitability. BWIA has lost $45.5m since privatisation three years ago, and has no assets left to borrow against.

In putting up $300,000 of his own money to ensure *staff were* paid, Lawrence Duprey, chairman, said the carrier was insolvent and needed an immediate injection of $10m to survive. Conrad Aleong, chief executive, says shareholders will be asked to put up the money or to guarantee a loan.

However, the largest shareholder has balked. "I do not think I would recommend putting money into a failing enterprise," says Brian Kuei Tung, Trinidad and Tobago finance minister.

The government has retained a 34 per cent stake in the airline, though it has little management influence.

If the government put money into BWIA, it would demand "a big say" in running the company and would ensure there was "proper alliances and proper management", the minister said.

Air Jamaica's problems were compounded by the failure of the local civil aviation agency to meet the air safety oversight standards of the International Civil Aviation Organisation.

Soon after the privatised company re-equipped its fleet with Airbus aircraft, the US Federal Aviation Administration prevented it from flying the new aircraft into the US, and from flying new routes to US cities with its older aircraft.

The island's civil aviation agency has *since met* the standards, but having new aircraft sitting on the ground for 18 months cost the airline about $150m, says Christopher Zacca, Air Jamaica president.

The company will need *more than the help it has* got from the government. "The removal of the $114m debt burden will help our balance sheet," says Mr Zacca, "but we will still need $80m this year and another $55m over two years after that to meet our target of profitability by the end of 2000."

The Jamaican government has a 25 per cent stake in the airline, and Omar Davies, the finance minister, has criticised the management of the company. A caustic reply from Gordon Stewart, Air Jamaica chairman, in which he criticised Mr Davies' management of the economy, indicated frustration on both sides. The write-off of the debt suggests that the differences have been resolved.

Jamaica's opposition parties have said that Air Jamaica could easily be renationalised if the government were to convert current and likely debts into equity.

Mr Zacca does not believe this will happen. "We have no fear that the government intends to take back the airline. The private shareholders have an excellent working relationship with the government. But it will monitor the company's perfor*mance and ensure* an agreed business plan is implemented.

"The administration accepts the financial problems have been caused by a failure, not of the company's making, to meet civil avia*tion standards."*

There is little certainty of future profitability for either company. Continued state support appears inevitable.

Nothing has come of an announcement last year that the two airlines would co-operate in several aspects of their operations. But co-operation is needed if the companies are to survive, said Dennis Pantin, head of the economics department at the University of the West Indies in Trinidad.

"These airlines can be profitable only if they work together. While competition is a good thing, it might not be so in this case. The airlines are important to tourism, which is the pillar of many Caribbean economies, and, if the companies collapse, economies could be hurt.

"But governments should not get involved because they should not be allowed to control the management of the airlines."

Governments, pondering the extent of likely financial support for the airlines, will be concerned about the problems faced by three eastern Caribbean governments *which recently paid* a subsidy of $1.5m each to American Airlines to guarantee flights to the islands on routes which the airline found unprofitable.

Fee income drives growth at US banks

Strength in fee income boosted quarterly earnings for NationsBank and First Chicago, the first of the big US banks to report second-quarter earnings, AP-DJ reports from New York.

NationsBank, the third largest bank in the US in terms of assets, said second-quarter operating profits rose 23 per cent on the strength of its investment banking and brokerage operations. Core loan growth was also healthy, as managed loans and leases grew to $194bn – 8 per cent above the levels of a year ago.

On an operating basis, North Carolina-based NationsBank, which agreed in April to merge with BankAmerica, said second-quarter earnings rose to $1.13bn, or $1.15 a diluted share. This compares with $919m, or 94 cents, last time.

The figures, which exclude an expected one-time pre-tax *gain of $430m from the sale* of 67 Barnett Banks branches earlier this year, were a cent above the First Call consensus estimate.

Most of the revenue lines came in as, or better than, expected, said analyst Thomas McCandless of CIBC *Oppenheimer, adding that* one of the pleasant surprises was the decline in non-accrual loans. Credit quality remained strong, analysts said.

Ed Najarian, analyst at Wheat First Union, said fee revenue was exceptionally *strong, helped by investment* banking and asset management. Overall, fees were up from the first quarter and the year-ago quarter, he added.

Non-interest income jumped 31 per cent to $1.86bn, helped by the company's *NationsBank Montgomery* Securities unit and growth in core operations.

The net interest margin fell from 4.05 to 3.81 per cent "due to a higher level of investment securities as a result of leveraging excess capital", the bank said.

However, on a linked-quarter basis, net interest income was flat and margins were stable, Mr Najarian said. Net of securitisations, core net interest income advanced 5 per cent on an annualised pace from the first quarter, he said.

Meanwhile, First Chicago, which in April agreed to merge with Banc One, also reported a solid quarter, boosted by fee income.

"Fee income growth of just under 20 per cent fuelled our earnings momentum," said Verne G. Istock, chairman, "and we are further pleased with the continued strong trading and investment results." The bank said net income rose to $408m, or $1.38 a diluted share, from $378m, or $1.20, a year ago. The earnings, which came in above the First Call consen*sus of $1.34 a diluted share*, were helped by securities gains.

A large proportion of those higher securities gains found their way into higher provisions and higher expense accruals, said Joe Duwan, an analyst at Keefe Bruyette & *Woods. First Chicago took* a higher provision to reduce its exposure to some of the countries hit by Asia's economic turmoil, primarily to Korea, Indonesia and Thailand, he said.

The provision for credit losses, on a managed receiv*ables basis, was $359m*, compared with $351m in the corresponding quarter. Cross-border outstandings in Korea, Indonesia and Thailand declined from $1.5bn on January 1 to $1bn at June 30.

James Schutz, of ABN Amro, said the real positive *in the quarter* was the "material improvement" of losses in the bank's credit-card portfolio. The core credit-card charge-off rate declined to 6.9 per cent, from 7.6 per cent a year ago.

Net interest income was $898m for the second quar*ter, against and $951m a year* ago. The net interest margin was 3.61 per cent. Adjusted for credit-card securitisations and the activities of First Chicago Capital Markets, the net interest margin was 4.14 per cent, compared with 4.7 per cent last time.

Non-interest income rose from $644m to $842m. The return on equity improved from 18.1 to 20.1 per cent, while the return on assets was flat at 1.4 per cent.

Record earnings at PaineWebber

By Tracy Corrigan in New York

PaineWebber yesterday reported record earnings and revenues for the second quarter, helped by a big *rise* in fee income. Earnings of 82 cents a share were ahead of analysts' estimates of 77 cents and up from 58 cents the previous year.

Net revenues of $1.16bn were up 19 per cent on the previous year, producing net *income of $129.5m, up from* $93m.

Recurring fee income was running at an annualised $886m, up 39 per cent from $637m, the company said. The company's return on equity for the quarter was 23.7 per cent.

Donald Marron, chairman and chief executive, pointed to the firm's success in wrap-fee business, where clients investing $100,000 or more pay a set fee for brokerage services. Wrap-fee assets rose 47 per cent to $26.5bn, while assets under management were up 21 per cent to $54.7bn.

"We are pleased with our continued record perfor*mance, which we believe is* the result of our strategy of gathering the assets of individual investors and providing them with the best investment advice in the industry," Mr Marron said.

Deutsche signals new consolidation phase

By Tracy Corrigan in New York

Deutsche Bank's revelation that it is considering a US acquisition may be a sign that a new phase of financial services consolidation is about to begin.

So far, the bulk of the consolidation of global investment banking has been within the US or European markets. There have been some sizeable acquisitions by US *firms* – such as Merrill Lynch's purchase of Mercury Asset Management in the UK – and European groups have swallowed the likes of Dillon Read and Cowen (the former Swiss Bank Corporation, now part of UBS, and Société Générale respectively). But no cross-border deals have occured on the scale of Morgan Stanley/Dean Witter, let alone *Travelers/Citicorp*.

"If the market stays high, the consolidation will continue and accelerate," said *Philip Purcell, chairman of* Morgan Stanley Dean Witter, in a recent interview with the Financial Times. "The last step – and that hasn't happened – is cross-border consolidation."

Deutsche is not the only European bank with pretensions to building a global investment banking franchise. UBS, newly formed by the merger of Swiss Bank Corporation and Union Bank *of Switzerland*, also knows it needs to expand its US business and is considering the issue – although Hans de Gier, chairman and chief executive of the bank's investment banking arm has ruled out buying a US bulge-bracket firm.

Still, Deutsche's experience, as some at the bank have admitted, strongly suggests that the increasing pace of consolidation has made a strategy of building rather than buying a credible US operation untenable.

Following the departure earlier this month of Frank Quattrone and his technology group for Credit Suisse First Boston, Deutsche's "Europe-first" stance – *that* they will focus in Europe while treading water in the US – looks increasingly *unrealistic, analysts* agree. "Their US domestic business is not in good shape," says Raphael Soifer, securities industry analyst at Brown Brothers Harriman. "With Quattrone gone, there's a gaping hole."

Comments by Rolf Breuer, Deutsche's chairman, are likely to fuel speculation that Deutsche is looking at Hambrecht & Quist, the San Francisco-based investment bank *which specialises* in technology. He described it as "very interesting and a very good firm".

"If Hambrecht & Quist wants to sell, it would make a lot of sense from Deutsche's point of view," says Mr Soifer. Earlier this year, *H&Q held talks with Merrill* Lynch, the US brokerage firm, which were subsequently broken off. According to analysts, one attraction of being bought by Deutsche is that the German bank would probably allow *H&Q* to continue as an autonomous operation. However, "they should look at what happened to Morgan *Grenfell [the UK investment* bank]", says one analyst. Officials at H&Q said the firm never commented. H&Q shares rose nearly 3 per cent to $37⅝ in morning trading.

Comments by Rolf Breuer, Deutsche's chairman, are likely to fuel speculation that it is looking at Hambrecht & Quist

But while *H&Q* would fill the immediate gap left by the Quattrone departure, it would not provide Deutsche *with a broad US platform*. "It wouldn't solve the big problem," says Mr Soifer. Furthermore, Mr Breuer's hints that the bank is looking at other options, such as joint ventures, suggest that the bank wants to tackle this broader issue.

Other acquisition candidates include: Donaldson Lufkin & Jenrette, which is owned by France's Axa group; Lehman Brothers, which has experienced a recent rebound in profitability; and PaineWebber, the US brokerage. Some analysts have suggested a merger with even bigger entities such as Goldman Sachs, *which is due to become a* public company later this year, or J. P. Morgan, which is struggling to cut expenses. However, all of *these* have expressed a desire for continued independence.

While Mr Soifer believes that "there's nothing available", other analysts are not *so sure. "Any of the US securities* firms would sell – at a price," says Sallie Krawcheck, securities industry analyst at Sanford C. Bernstein. But she adds: "Each has the means and the capabilities to go it alone."

The result is that if Deutsche does buy, it will not get a bargain, and a pricy acquisition could be disastrous if followed by a bear market. *The same holds true for* UBS. While its problems have been less severe than Deutsche's, it has also experienced some slippage in its US business, partly as a result in the delay in approval of its merger.

Some believe that UBS has a better chance of getting it right. "UBS has the means, the capability and the savvy" to make a US acquisition work, says one observer. But both face an uphill struggle, as well as stiff competition from US *commercial banks like* Chase Manhattan, which has itself been struggling to find an investment banking acquisition.

هكذا من الاصل

Our client relationships go deeper. Now the global resources available to them go even wider.

Union Bank of Switzerland and Swiss Bank Corporation have joined to form a bank with assets under management of more than USD 1000 billion, ranking among the top financial services firms in the world. To our deep understanding of each client, we bring even more ways to add value to that relationship.

Welcome to the new UBS AG.

UBS

FOOD SALE OF SHARES BY ANGLO AMERICAN MAY LEAD FRUIT CANNER TO LIST OUTSIDE SOUTH ARICA

Del Monte links with Italian group

By John Willman, Consumer Industries Editor

Del Monte, the South African-listed fruit canner, yesterday linked with an Italian group with interests in dairy products, tomato paste and football.

Under the agreement, Cragnotti & Partners Capital Investment will pay Anglo American Corporation, the South African mining group, $80m *for its shares in three* companies which form the Del Monte group.

The offer is subject to the approval of regulators in Italy, Ireland and Germany.

Once approval is given, Cragnotti will extend its offer of R5.50 a share to minority shareholders in Del Monte Royal Holdings, the holding company for the group in which it will have a *stake of 30.46 per cent.*

There will be no offer to the minority shareholders in the other two companies, Del Monte Royal Corporation *and Del Monte Royal Foods*, in which Cragnotti will have stakes of 19.05 per cent and 9.9 per cent respectively.

The other large shareholder in the Del Monte group will remain Vivian Saul Imerman, the South African chairman and chief executive of Del Monte, who owns 30 per cent of the holding company.

The group is a vertically integrated producer of canned pineapple and deciduous fruits, fruit drinks and specialty products.

The sale of the Anglo *American shares* could lead to a listing outside South Africa where Del Monte's ability to raise capital is constrained by exchange controls.

It was created when Del Monte was taken over by RJR Nabisco during the late 1980s and split into three companies.

The South African-listed wing has the rights to use the Del Monte brand outside the Americas.

The Italian group owns Cirio, the largest fresh milk producer in Italy which was privatised in 1993 and also cans tuna, tomatoes and other vegetables.

Chaired by Sergio Cragnotti, a former Ferruzzi executive, it also owns Lazio, the Rome soccer club which was recently floated on the stock market.

The partnership follows an extensive study by Bain & Co, the international management consultancy; which concluded that South Africa was the wrong country for Del Monte to be listed in.

It accounts for less than 5 per cent of sales, and the group has its headquarters in the UK.

When the share sale is complete, Bain & Co will *again be asked to advise on* strategy.

Del Monte, which already has an extensive business in the Philippines, believes an overseas listing could *allow* it to take advantage of the financial turmoil in Asia to acquire businesses in countries such as Thailand and Indonesia.

"Our team will be looking very carefully at the potential synergies and we are confident there are many opportunities to strengthen the Del Monte brand," said Mr Cragnotti.

Turbulent times send Kenya Airways shares into tailspin

Political instability and a pilots' strike contributed to a 40% slide in the carrier's stock price, writes **Joel Kibazo**

David Mwangi, a school teacher in western Kenya, has had his fingers badly burned. "We were told buying shares is a good thing, so I bought Kenya Airways shares as an investment two years ago. *But these things just keep* going down, so why should I bother again?"

A 40 per cent slide in the stock price of Kenya Airways – *in which KLM*, the Dutch carrier, holds a 26 per cent stake – knocked the confidence of local investors and left senior executives bracing themselves for tough questions when they meet international shareholders in London this week.

Few expected such a decline when one of Africa's most widely distributed stock issues started trading in June 1996.

Political instability, which triggered a fall in tourism last year, coupled with industrial action and high interest rates have all played a part in the share price slide.

Formed by the government in 1977, Kenya Airways became a textbook case of mismanagement. Losses reached $50m in 1992 before *international donors forced* the government to hire Speedwing, an airlines consultancy owned by British Airways, to restructure the company and prepare it for privatisation.

By 1995, the turnround was complete and, in the privatisation that followed, the government retained 23 per *cent of the equity, while* 14 per cent was set aside for international investors. About 3 per cent went to the company pension fund.

Following a massive media campaign, the rest of the shares were sold to the public at Ks11.25, creating a share register with more than 100,000 investors.

But those looking for capital appreciation have been bitterly disappointed. Except for a brief advance to Ks14 shortly after flotation, the shares have traded around Ks7 for much of the past two years.

A big factor in the share price decline was a fall in tourist traffic as political instability gripped the country, not only hitting passenger numbers but knocking confidence in local stocks.

Many feared this would lead to poor results. However, figures released early this month revealed a 41 per cent *rise* in profits, to *$21.9m, which saw the* shares harden to Ks8 last week. But few expect a sustained revival of buying interest.

The first wave of selling came after local investors were shaken by a pilots' strike over wages shortly after privatisation. Many, including the airline, *regarded the settlement as* expensive.

With a majority of the shares owned by first-time buyers, the initial decline *only increased* their eagerness to sell following the lack of early short-term gains.

High interest rates also encouraged local high net worth individuals to move out of Kenya Airways and into short-term treasury bills yielding *far* greater returns.

While KLM remains happy with its investment, other international holders have sold. One says simply: "Kenya Airways are doing everything right. The association with KLM is great and we can see what they have brought to the party, and the profits are *increasing.*

"But we took the view that you can't divorce the political climate from the the business environment, so we *decided to get out.*"

Financial analysts are also getting wary. One says: "Foreign investors are looking for capital appreciation. With these shares yielding 12 per cent it will take three years to make up the capital loss on this holding."

But if some international investors have decided to bail out, several have expressed an interest but say they are prevented from buying the shares by legislation that limits foreign investment in locally quoted companies to a *maximum of 40* per cent.

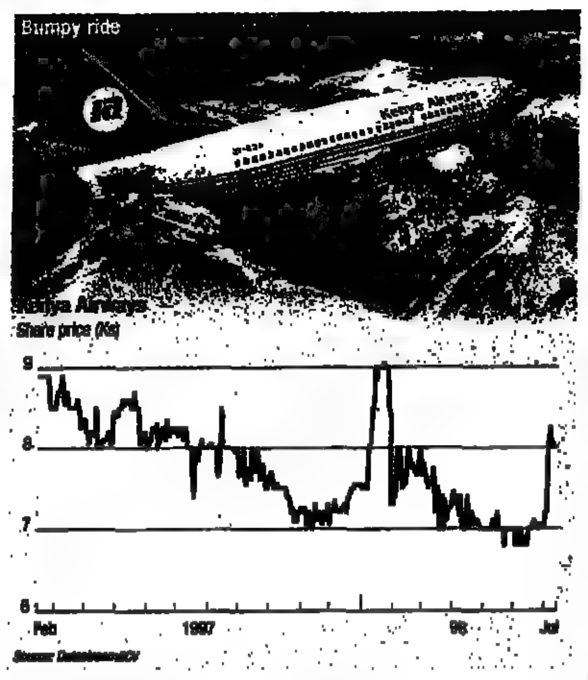
Paul Melly, chief executive of Kenya's Capital Markets Authority, is confident it is *only a matter of time before* the rules are relaxed.

"The policy is being looked at and I am optimistic something will be done very soon. After all, we do not want to be seen to be preventing foreign investment."

The company has tried to head off the growing discontent among shareholders by announcing a higher than anticipated dividend of Ks1.

Brian Davis, chief executive, says: "We had the issue *of capital appreciation in* mind when we looked at our dividend policy. We can cope with it this year."

Whether Mr Mwangi *regains his confidence in* share ownership remains to be seen.



Madrid wants role in bourse alliance

By Tom Burns in Madrid

Madrid's Bolsa yesterday *joined the Paris and Amsterdam* bourses in calling to be included in plans by London and Frankfurt to forge a stock exchange alliance.

The Spanish reaction is a combination of support for a pan-European equities market, pique over not being consulted over the Anglo-German initiative and opinion the Bolsa should not be left out of the development.

Juan Fernández-Armesto, chairman of Spain's stock exchange commission, dismissed reassurances from London and Frankfurt promising future invitations to join their planned alliance. "The club may well be an open one but when you are allowed in the rules have already been drawn up. This cannot be an Anglo-German affair, managed by the City," he said.

The Bolsa considers itself a highly efficient market which converted to electronic trading 10 years ago, *and has seen a strong* increase in business over the past two years. Madrid has now overtaken Milan to become the fourth-ranked European bourse in terms of daily trading volume.

The Madrid market is now hoping to encourage listings by Latin American groups, many of which have partnership arrangements with Spanish companies.

"It is just not on to leave Spain or any other significant European market out because it runs against the whole European idea of co-operation, non-discrimination and subsidiarity," Mr Fernández-Armesto said.

He said he was "wholeheartedly" in favour of a pan-European market. "It is very important to have a market that is large, deep, liquid and efficient." However, national stock exchanges should be the "natural entry point" for companies seeking a listing on the larger market, he added, and national regulators should have a key role in supervising a eurozone exchange.

Following a string of market privatisations, more than 10 per cent of Spanish adults now own shares, and the Bolsa's Pts60,400bn ($391bn) *capitalisation represents* some 55 per cent of the country's GDP. It is estimated between 10 and 15 Spanish companies would be eligible to trade on a pan-European exchange formed by the eurozone's 300 top companies.

NEWS DIGEST

SWEDEN

Higher tax charge takes toll on OM Gruppen

Shares in OM Gruppen tumbled 5.3 per cent yesterday after the Swedish securities exchange operator posted lower net half-year profits. Pre-tax profits rose from SKr192m to *SKr244m ($18.5m), but after-tax earnings dipped from* SKr163m to SKr162m.

Per Larsson, chief executive, said OM had suffered from a higher tax charge stemming from higher trading volumes at OMLX, its London-based derivatives exchange. OM had also incurred increased costs from *its acquisition of the Stockholm* stock exchange early this year.

Shares in OM – one of the best performers among listed Swedish groups this year – shed SKr10.50 to end the day at SKr186.

The company said turnover on *its exchanges was robust*, helped by strong volumes on the Stockholm bourse. However, the costs of the acquisition, coupled with the introduction of options programmes for senior managers, helped push operating costs up from SKr390m to SKr597m. This damped earnings per share, which *slipped from SKr2.30 to SKr1.94*, reflecting an increase in share capital in conjunction with the Stockholm bourse acquisition. Sales increased from SKr439m to SKr773m. **Greg McIvor, Stockholm**

PORTUGAL

Siva raises Es19.5bn in IPO

Siva, the Portuguese car dealer *that imports* and sells Volkswagen cars, yesterday raised Es19.5bn ($104.6m) from an initial public offering of 25 per cent of the company. The sale, which attracted record demand for a private-sector IPO in *Portugal, was priced at Es2,600 a share, the top of the pre*-announced range. Small savers ordered 614.5m shares, 246 times the 2.5m shares on offer in the retail tranche.

The 2.75m shares for international institutions and 2.25m shares for Portuguese institutions were seven and five times subscribed, respectively. Global co-ordinators were Banco Chemical Finance of Portugal and Salomon Smith Barney. Shares in the family-controlled company, which now has more than 82,000 shareholders, begin trading on July 16. **Peter Wise, Lisbon.**

TELECOMMUNICATIONS

WorldCom wins Spanish licence

WorldCom, the US telecommunications group, has been granted a licence to operate in Spain, the country's Telecommunications Market Commission said yesterday. Jose-Luis de Miguel, external relations director at the commission, said the move would allow WorldCom to offer valued-added services through its own infrastructure. The only other licence of this kind was awarded to Colt Telecom, of the UK.

The liberalisation of the Spanish telecoms market means former monopoly Telefónica now faces competition from three *rivals in its fixed-line and cellphone businesses*. However, Telefónica is unlikely to be threatened by WorldCom's move into its home market, as the two companies signed a strategic alliance in March to develop cross-holdings in each other's international operations. **APDJ, Madrid**

■ *The European Commission has cleared the bid by British* Telecommunications, AirTouch Communications of the US and three investment companies to acquire joint control of Airtel, the Spanish mobile telephone operator. **AFX News, Brussels**

ENTERTAINMENT

PolyGram takes Turkish *stake*

PolyGram, the Dutch entertainment group for which Seagram of Canada has mounted a $10.4bn bid, is expanding its international interests by taking control of Raks Müzik, the largest record company in Turkey. Under the deal, PolyGram will acquire a 26 per cent stake in the company to add to the 25 per cent holding it bought early last year. Raks Müzik, which represents popular Turkish acts such as Çelik Erişçi and Izel, will be renamed PolyGram Plaza. Once the Seagram takeover is completed, PolyGram's Turkish business, like its other record companies, will be merged into Universal Music, the Canadian group's music subsidiary.

Seagram last week got the go-ahead from the US anti-trust authorities to start the merger process, but is still waiting to clear the deal with the European Commission. It could take several months for the Commission to decide whether to endorse the transaction, as it must ensure that it is acceptable to each member state. PolyGram is already Europe's biggest music group, but Universal Music's market share is relatively low in the region. **Alice Rawsthorn**

PENSION FUNDS

Zurich Insurance in Polish *move*

Zurich Insurance said yesterday it and Solidarity, the Polish trade union, would apply for a common licence to jointly enter the Polish pension fund business ahead of a partial privatisation of the state pension system in 1999. *As part of the* agreement, Zurich and Solidarity will establish two organisations: Zurich Solidarni for pension fund management and Solidarni Zurich for distribution. **AFX News, Zurich**

UBS plans online service

By Paul Taylor

UBS, the Swiss bank, plans an online home banking service built around Intuit's Quicken personal finance software.

The bank has signed a deal with Intuit Services Europe, a joint venture based in Mannom, Switzerland, which was set up nearly two years ago by Intuit, the US-based software group, and European Technology and Finance Investment.

Intuit Services will customise the Quicken software package for UBS, which will target its high net worth customers with the service in an effort to build customer loyalty.

The deal marks an important breakthrough for Intuit, which has seen Microsoft and its rival Money package announce a series of online banking deals with UK retail banks, including Barclays and the Royal Bank of Scotland, over the past 18 months.

UBS said it had chosen Intuit Services because of the organisation's knowledge of European banking practices and the combination of Quicken's ease-of-use and online/off-line capabilities in investment services such as share portfolio management.

"The face of European banking is changing swiftly," said Nigel Hopkinson, Intuit Services's chief executive. "Many European banks are realising that the way to remain competitive is to grow and enhance their relationships with existing customers."

Czech probe into National Power

By Robert Anderson in Prague and Arkady Ostrovsky in London

The Czech Securities Commission is investigating whether National Power, the UK electricity company, violated its obligations to minority shareholders in its compulsory buy-out offer for Elektrarny Opatovice (EOP), a small generating company.

The investigation is an embarrassment for National Power, whose purchase of EOP is the biggest UK investment in the Czech Republic and the company's first foray into central and eastern Europe, where it plans to create a portfolio of power plants.

National Power yesterday denied the allegations. "We believe our dealings in the Czech Republic, including our recent mandatory public offer, comply fully with all the Czech commercial code and other requirements. We have had no notice of any investigation," the company said.

But the Czech watchdog confirmed an investigation was under way.

The Securities Commission is investigating whether an option contract agreed by National Power was designed to avoid the legal obligation to pay minority shareholders the average market price over the preceding six months once a 50 per cent shareholding had been reached.

It could impose fines of up to Kč100m ($3m).

Last October, National Power took control of EOP for Kč5.3bn by buying a 48 per cent stake for Kč8,600 a share – almost double the *traded price.*

In May, it raised its stake to more than 70 per cent by buying shares from several east Bohemian cities for Kč4,300 a share. It then made a compulsory buy-out offer to the remaining shareholders at Kč4,200 a share.

Estonia gives go-ahead to bank mergers

The Estonian central bank yesterday gave its approval to two separate bank mergers, marking the culmination of a structural overhaul and consolidation of the sector as competitive pressures mount, Reuters reports from Tallinn.

The central bank approved the union of two of the three *largest financial institutions* – Hansapank and Hoiupank – creating Hansapank, the largest bank in the Baltics with assets of EKr24.1bn ($1.68bn).

The central bank also announced it had given its approval to the merger of Uhispank, Estonia's largest bank, and fourth-ranked Tallinna Pank to create an institution with assets of more than EKr16bn.

"It is definitely good news, but it has to be seen in the long run," said Adam Koster, analyst at Société Générale in London. "There are still macroeconomic worries, and you have Russia and so on – this is what dominates the market."

The mergers raise the competitive stakes in the small Estonian market and position the banks to strengthen their status as pan-Baltic operators, with each institution having branches and other financial operations in Latvia and Lithuania.

The consolidation comes as Estonia's economy is being squeezed by higher interest rates, soaring GDP growth and a yawning current account gap.

Newly-formed Hansapank said that while it began operations yesterday, it would take about one month for the two founding companies to be legally joined.

Under the terms of the deal, Hansapank will issue 33 shares in the new bank for every 125 shares of Hoiu.

"I think the merger will be better implemented and will overcome some of the earlier problems now that Hansapank is dominating the process," said Martin Laur, analyst at Tallinvest Suprema.

The move is expected to cost some EKr47.6m, mostly in redundancy payments of about EKr24.4m.

The merger of Uhispank and Tallinna Pank is expected to give the new bank, which has yet to be named, about 32 per cent of the Estonian banking market.

The banks have said they expect profits to be about 20 per cent higher than if the two operated on their own.

The merger will take place with a share swap of one Tallinna Pank share for 0.43 Uhispank share.

OzEmail embraces God after investors give their blessing

Shares have soared in the Australian internet group – now provider of services to the country's Catholic Church, writes **Russell Baker**

To some people, Malcolm Turnbull, co-founder of the Australian Republican Movement, is the devil incarnate, but to the Roman Catholic Church in Australia *he is a welcome provider of* cheap internet services.

Mr Turnbull is chairman of OzEmail, Australasia's leading internet group, which last week became the preferred service provider for the Australian arm of one of the world's oldest institutions.

OzEmail, which is listed on Nasdaq and the Australian *Stock Exchange (ASX)*, will be delivering a broad range of discounted internet services to the 6,000 Roman Catholic groups across Australia.

"In a rapidly changing world, the time has come for the Church to embrace the web," proclaims David Spence, OzEmail president and chief operating officer.

The Catholic Church coup caps a remarkable month for OzEmail, which has seen its share price soar as international investors clamour to buy internet stocks.

Last week the ASX questioned OzEmail over a 43 per cent rise in its share price from A$2.90 in mid-June to a new high of A$4.15, which gave it a market capitalisation of A$504m. OzEmail responded that there were "incomplete and confidential negotiations" under way, but that it was not in a position to make any announcement. There have, however, been rumours that OzEmail has been talking to News Corp, the media conglomerate *controlled by Rupert Murdoch.*

There have been unsubstantiated rumours that OzEmail has been talking with Rupert Murdoch's News Corp

A more likely explanation for OzEmail's surge is the internet fever which has gripped Nasdaq. The share prices of such groups as Netscape, Yahoo!, *Amazon* and Lycos have surged in recent weeks.

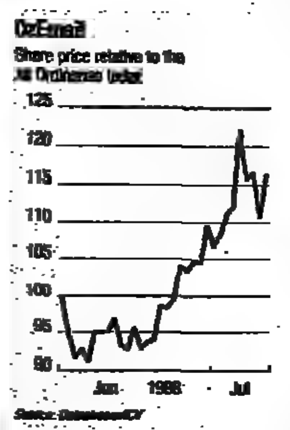
In its ASX reply, OzEmail acknowledged this, saying it was "aware that many stocks in the internet sector listed on exchanges in the US have increased". It seems that investors have been forcing up OzEmail's share price on Nasdaq, and its ASX share price has been playing catch-up.

OzEmail is Australasia's biggest service provider, with an active customer base of more than 180,000 users. It has about 80 points of presence, or electronic gateways, in Australia, which provide local-call access to more than 80 per cent of Australia's population. In May 1996 the company was quoted on Nasdaq via an issue of American Depositary Shares. Following a share split in September 1997, each ADS now represents 10 ordinary shares.

The company expects increasing competition in *the Australian internet* service market this year, but Mr Turnbull believes that "it can rise to the challenge".

One of the group's biggest costs is band width between Australia and the US. *To* overcome this it has set up a satellite link from the US to its own earth stations in Australia. It is also joining a consortium to acquire fibre capacity between the US, Australia and New Zealand.

Malcolm Turnbull: *OzEmail 'can rise to the challenge'*



Interline, the group's internet telephony business, uses technology which allows the placement, routeing and billing of high-quality voice services *over the internet,* using existing tone-dial phones. Interline has network affiliates around the world, including in the UK and the Netherlands.

OzEmail's three largest shareholders are Sean Howard, chief executive, Trevor Kennedy, a director, and Mr Turnbull, who between them control 61 per cent of the group. Mr Turnbull also runs the Australian Republican Movement and is chief of the local office of Goldman Sachs.

Early last month the three largest shareholders decided *to sell 3m of their shares,* representing about 2.5 per cent of issued capital, to Australian investors at A$2.57 each to facilitate the ASX listing of OzEmail. At *OzEmail's current price,* those investors are sitting on a 40 per cent paper profit.

Even more happy is Father Emmet Costello, a Sydney Jesuit priest. Thanks to the OzEmail hook-up, "the world is now my congregation", he says.

Fund managers more optimistic on Japan equities

By Jane Martinson, Investment Correspondent

International fund managers turned positive on Japanese equities last week after plans for intervention to support the yen and for a "bridge bank" to deal with bad debts in the financial system were announced.

A poll for Merrill Lynch, the US investment bank, conducted by Gallup, the market researchers, found that UK managers with funds worth £1,559bn ($2,545bn) became net buyers of Japanese equities after selling them over the previous 12 months.

Trevor Greetham, global strategist for Merrill Lynch, said that the increased optimism seen in last week's survey appeared to have survived yesterday's resignation of Ryutaro Hashimoto, Japan's prime minister.

"There are certainly some positive aspects to the resignation," *he said, mentioning* that a new minister may be able to make a policy U-turn in politically sensitive areas such as consumer taxation.

However, he was cautious about any upturn in outlook: "My worry is that they are expecting too much too soon," he said. "Fund manager sentiment towards Japan is notoriously volatile."

In the UK, buyers of Japanese equities outnumbered sellers by 16 *per cent* – a turnround from just two months ago, when sellers outnumbered buyers by 21 per cent.

US and continental European managers have been increasingly confident since May. The monthly poll questions 257 institutions with funds of $6,061bn.

Non-Japanese fund managers were also much more positive on the yen than *they have been for some* months, with most expecting to see the currency slightly stronger against the US dollar in a year's time. The average forecast was Y143 to the dollar.

Domestic fund managers have been much more bullish than their non-domestic counterparts on both equities and the currency this year, with 72 per cent expecting a strong economy a year *from now. That is the most* optimistic they have been since last September.

They are selling Japanese bonds and are more downbeat on overseas bonds.

Fund managers in Asia-Pacific expect regional economic growth to remain weak, while profits expectations are falling.

NEWS DIGEST

SECURITIES TRADING

Vietnam to set up market in Ho Chi Minh City

Vietnam has signed a decree which will lead to the creation of a fledgling securities trading market in the southern commercial centre of Ho Chi Minh City by the end of the year. Details of the new decree, signed on Friday, are to be officially released in Hanoi today. Foreign securities companies expect the regulations to allow Vietnamese and foreign joint ventures to trade in bonds and a limited number of company stocks, providing a boost to Vietnam's slow-moving state-enterprise reform. Since 1993, fewer than 30 out of Vietnam's 5,800 state-owned companies have been sold off.

Refrigeration Engineering Electrical Company (REE), a Ho Chi Minh City-based air-conditioner manufacturer, is the only privatised company with foreign shareholders; 16.3 per cent of the company is in foreign hands, after the conversion into shares in May of a $5m bond underwritten in 1993 by Dragon Capital, a Vietnam investment fund.

With an estimated capitalisation of $27m, REE is likely to be a leading stock when share trading eventually gets under way in Ho Chi Minh City. The latest regulations should smooth the path of a pilot scheme drawn up by Nomura Securities for the sale of shares in Savimex, a furniture exporter, which aims to set a precedent for future privatisations involving foreigners.
Jonathan Birchall, Hanoi

THAILAND

Tri Energy obtains foreign loans

Banpu, a leading operator of coal mining and energy businesses *in Thailand, said yesterday that its joint venture Tri* Energy company had signed a contract to borrow $427.5m in a dollar-denominated loan and Bt750m ($17.9m) in a baht-denominated loan. The venture is 37.5 per cent owned by Banpu and Texaco of the US, while another US partner, Edison Mission Energy, owns the balance.

Tri Energy is the first privately-owned large utilities project in Thailand to obtain foreign loans during Thailand's economic recession, said Banpu. The company will use the loans to finance its project to build an electricity power plant with a capacity of 700MW 95km west of Bangkok. It will sell all output to the Electricity Generating Authority of Thailand under a *20-year contract.* **AP–DJ, Bangkok**

AUSTRALIA

CSR expects profits growth

CSR, the Australian building materials, sugar and aluminium group, expects profit growth in the year to March despite some bad strategic moves by the company, according to Ian Burgess, chairman. "Present indications are for company profits to rise again *during the current year,"* he told the annual general meeting. Mr Burgess said the company's expansion of its medium density fibreboard manufacturing business "has proved to be a bad strategic move".
AFX-Asia, Sydney

RETAILING COMPANY FACES 'AN EXHAUSTIVE INQUIRY' FOLLOWING DISCOVERY OF BREACH IN ACCOUNTING RULES

Allied Carpets shares suspended after audit

By Andrew Edgecliffe-Johnson

Trading in the shares of Allied Carpets was suspended yesterday after the company discovered that some stores had deviated from its accounting rules by recording sales before the products had been delivered to customers.

Ray Nethercott, managing director, said the company and Arthur Andersen, its auditor, would conduct "an exhaustive inquiry to establish the extent of this non-compliance".

The problems only came to light this weekend, Mr Nethercott said, during the end-of-year audit.

He said the company had yet to establish the potential impact on its profits but estimated that the "sales recognition error" affected about 3 per cent of the turnover for the year to June 30 1998. On analysts' forecasts of £267m ($441m) sales for the year, £8m worth of goods could be affected.

Nathan Cockrell, retail analyst at BT Alex.Brown, said: "Given that the average order size is about £1,000, that is 8,000 undelivered carpets, or 30 per store. You would have hoped that somebody would have noticed."

Allied Carpets, which sells about 18 per cent of the carpets in the UK, typically records a sale only when the carpet has been delivered to the buyer. But auditors discovered some shops have instead recognised sales once carpets had been delivered to the store but before they had gone out to the customer.

Mr Nethercott added: "The evidence so far is that we are not talking about fictitious sales or profits. It is a timing issue." He conceded that any breach of the company's accounting policies was serious but said: "It is not life-threatening."

One institutional shareholder said it was unusual to ask for a share suspension if accounting problems were confined to a marginal timing issue.

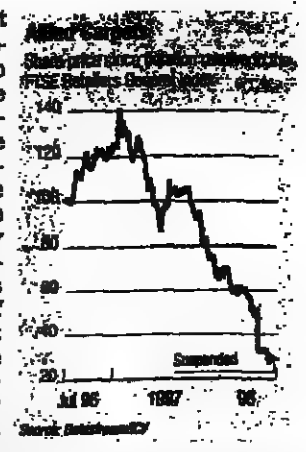
He added that however well the matter was handled any accounting problems were "almost bound to" damage the management's strong reputation".

Allied Carpets' discovery comes just two months after it warned of "a distinct lack of consumer confidence".

The group, which was listed two years ago, had seen its share price fall from 215p at flotation to 74½p before the suspension.

COMMENT

Allied Carpets



Have we heard the worst from Allied Carpets? Management is adamant that no cash losses will flow from the accounting irregularities discovered. But investors will be sceptical until further information is revealed. It may be that their worst fears are confounded. But it is surely no coincidence that this trouble has arisen at a business already showing signs of stress; witness the recent profit warning and a share price that has underperformed the sector by nearly 80 per cent since flotation two years ago. Moreover, questions have to be asked about a company culture whose sales targets encourage over zealous salesman to break the rules. The company's dismal rating testifies to deep pessimism. Now investors have more to worry about. The road back to respectability looks daunting.

Investment Trusts

Tigers are prowling in the investment trust sector, with Scottish National Trust the latest prey. It is due to be wound up at the end of September anyway, so Aberdeen Preferred Income, a rival trust, has chosen an ideal time to pounce with a hostile bid. Meanwhile, Gartmore – which manages SNT – plans to put forward its own proposal for a new "rollover" trust in an attempt to keep the bulk of the assets. Such aggression in what has traditionally been a cosy backwater is no bad thing. The more choice for investors, the better – as long as they understand the difference between the two investment beasts.

Both SNT and AbPref have geared capital structures, meaning investors do disproportionately well when equities are rising and particularly badly when they fall. But AbPref's targets are far punchier: a portfolio yield of 8.8 per cent, roughly double that of SNT's. Moreover, to achieve those returns, AbPref has an especially aggressive investment strategy. Half its portfolio is in the shares of similarly geared investment trusts, placing one layer of gearing on top of another. The rest is in fixed-interest securities – some of which tend towards junk bond status.

In current market conditions, this highly-geared strategy has worked wonders. Total return for the year to June was 108 per cent. Not surprisingly, AbPref trades at a handsome premium to net assets. But SNT investors tempted by AbPref's offer have to be unabashed bulls.

Ellis & Everard agrees $13m deal to buy PP

By Virginia Marsh

Ellis & Everard, the UK's largest chemicals distributor, is to double its sales of polymers with the purchase of one of the biggest independent distributors in the US.

The UK group said yesterday it had agreed to pay $13m (£8m) for Performance Polymers, a Massachusetts-based company, and to assume its debts, of up $15m. There is a further consideration of up to $15m, payable in 2001, depending on the performance of PP which had sales of $170m ($164.9m) last year.

The deal is to be financed through a placing. This caused the shares to fall 1½p to 269p, despite the announcement of results at the top end of expectations and a confident trading statement.

Helped by acquisitions, pre-tax profits rose to £32.1m (£29.6m) on sales of £732m (£645.3m) in the year to April 30.

The present year had "started well" and the group continued to manage the impact of factors such as currency and pricing cycles.

Peter Wood, chief executive, said the group's shift towards polymers and speciality chemicals had reduced its dependence on more cyclical commodity chemicals. Following the PP acquisition polymers would represent about 20 per cent of sales with speciality chemicals accounting for a further 30 per cent.

E&E's relatively upbeat comments contrast with a string of profits warnings by chemicals producers, culminating in a gloomy statement by DuPont last week.

The vendor placing, which is to raise about £23m net, involves the issue of 9m new shares, representing about 10 per cent of the existing share capital, priced at 255p. It is underwritten by Schroders and the brokers are Cazenove.

Earnings per share were 24.7p (22.5p) and a final dividend of 7.1p (6.7p) is proposed for a total of 10.6p, up 6 per cent.

Mass market: Peter Wood, left, and John Samuel, finance director Jason Orton

Strong demand for Coke bottler

By John Willman in London and Justin Marozzi in Manila

Shares in Coca-Cola Beverages traded at a premium to the issue price of 160p on their first day on the London Stock Exchange, amid buoyant demand for a stake in the new Coke anchor bottler for eastern and central Europe.

With just 142.7m of the 1.067bn shares sold through the bookbuilding exercise managed by Warburg Dillon Reed, the price jumped to 184p at the start of trading, before falling back to 169p. Investors had initially said they wanted to sell 195m shares.

Analysts suggested that many Australian shareholders had decided to hold back in the hope of selling for more after the flotation. Dealings on the Sydney Stock Exchange begin today.

San Miguel, the Philippine food and beverage group, which sold 100m shares through the bookbuild, sold its remaining 112.3m on Sunday night – also for 160p a share.

The issue price valued the company at £1.7bn and the offer was 13 times subscribed.

CWC seeks Telewest links

By Cathy Newman

Cable & Wireless Communications, the UK's biggest cable company, has approached two minority shareholders of Telewest Communications, in an effort to forge closer links.

CWC is thought to be considering a range of options to gain stronger links with the UK's second largest cable group. Among these are swapping local franchises, or combining the management of franchises.

The move is part of an effort to secure CWC's place as the dominant UK cable operator amid rapid industry consolidation. NTL, the third largest cable company, recently called a halt to merger talks with Telewest.

CWC has no immediate plan to make an offer for the stakes that will be held in Telewest by Vivendi, the French telecoms and services group, and SBC Communications, the US telecoms company, after the merger of Telewest and General Cable.

Although closer links could eventually lead to CWC making a bid for the minorities, MediaOne and Tele-Communications Inc, the US cable groups that are Telewest's largest shareholders, have rights of first refusal.

Nicholas Mearing-Smith, CWC's finance director, has made approaches to Vivendi and SBC. CWC is thought to want to gain their backing before seeking the support of other shareholders.

If the £649m ($1,07bn) acquisition of General Cable is completed as planned later this year, MediaOne and TCI will each own 20.9 per cent of the enlarged group, while SBC will hold 11.4 per cent and Vivendi 8.5 per cent.

There has been continued speculation about Telewest's future ownership, and CWC's role in further consolidation in the industry. Share prices in the industry have been soaring in recent weeks on hopes of further rationalisation. Over the past five years consolidation has reduced the number of cable companies in the UK from 24 to five.

Colt Telecom plans £600m placing

By Alan Cane

Colt Telecom, the fast-growing operator whose shares are leading the UK boom in telecoms stocks, yesterday announced half year results significantly ahead of market expectations together with ambitious expansion plans for mainland Europe.

It is planning to raise £600m ($990m) in debt and equity to extend its network to more than double number of financial centres it serves on the mainland.

The shares closed at £29.12½, 125p ahead. The company floated in December 1966 at £2.75. It has seen its shares rise strongly because of speculation that it is a target for takeover by a long-distance operator anxious to benefit from its direct connection to lucrative financial services customers.

Turnover for the six months to June 30 came to £81.7m (£33.5m).

James Hynes, chairman, said turnover for the first half of the year was greater than for the whole of 1997.

Gross profit for the half year rose almost threefold to £15.2m, while the loss was £22.2m (£14.7m). The loss per share was 17p (13p).

The company, which builds high capacity fibre optic networks around financial centres planning to raise the number of markets in which it operates from 12 at the end of this year to 26 by the end of the century.

It intends to raise the £600m through offerings of shares, convertible debt and debt, raising £200m in each category. The convertible and debt offering will be denominated in D-Marks.

Paul Chisholm, Colt chief executive, said: "We believe the size and growth potential of the European telecoms market coupled with continued liberalisation provide considerable opportunity for further expansion".

The price of the shares in the offer will be set by bookbuilding. Lead managers are Morgan Stanley Dean Witter and Dresdner Kleinwort Benson. Morgan Stanley and Kleinwort Benson Securities are Colt's financial advisers.

Dialog highlights internet success

By John Gapper
Media Editor

Dialog Corporation, the on-line business information group, attempted to prompt a re-rating of its shares yesterday by emphasising that its revenues from internet access to its databases were growing rapidly.

Dialog said in a statement to the stock exchange that its internet-based revenues had exceeded $50m (£30m) during the first half of 1998, doubling the pro forma $24m of revenues in predecessor companies last year.

The shares rose 4 per cent on the news, closing 6p up at 155½p. However, they are 29 per cent below the 220p level at which Dialog placed 54m new shares following its purchase of Knight-Ridder Information for £261m last October.

Dan Wagner, Dialog's chief executive, said the company had issued the statement, in which it predicted internet-based revenues of at least $100m by the year-end.

Mr Wagner said some of the revenue was coming from Dialog customers transferring from retrieving information "straight" from its database to doing so via the internet.

However, it was also gaining substantial new business.

Investors had not yet recognised that Dialog was gaining more revenue from the internet than Yahoo!, the search engine group that is now capitalised at about $8.5bn, and its main source of revenue growth was the internet.

ABN Amro, broker to Dialog, has also released a research note suggesting that Muscat, a Cambridge-based information analysis group that it acquired for an implied valuation of £8m last August, could now be worth £30m.

Telecoms alliance hangs in balance

Alan Cane and James Blitz *examine some of the problems that have beset the Cable and Wireless and Telecom Italia deal*

The alliance negotiated in record time last April by Dick Brown, Cable and Wireless chief executive, and Gian Mario Rossignolo, Telecom Italia chairman, puzzled and intrigued industry analysts and the two partners' competitors alike.

The deal was portrayed as a global alliance capable of carrying 17bn minutes of international traffic annually and giving the two partners' international customers the benefits of both their networks.

Yesterday, as the only financial transactions which would have underpinned the deal fell apart, it seems goodwill alone is now holding it together. And with Telecom Italia in the midst of fierce management battles which have left Mr Rossignolo fighting alone to transform the company, goodwill may not be enough.

C&W yesterday said Telecom Italia would not be buying C&W's 20 per cent interest in Bouygues Telecom, the French mobile operation, and was unlikely to invest small stakes in C&W West Indies and C&W Inc in the foreseeable future.

From the first, the alliance seemed insubstantial compared with existing partnerships such as Global One, established by Deutsche Telekom, France Telecom and Sprint of the US, or AT&T's WorldPartners alliance.

No exchange of assets or equity were to take place. The deal was not exclusive. Telecom Italia continued to talk to AT&T and to Unisource, the alliance of smaller European operators, even though a commitment to C&W should surely have ruled out such dalliances.

The structure of the alliance was purposely left vague but analysts said the deal was grounded more in opportunism than industrial logic. For C&W it offered the opportunity to divest itself of its Bouygues Telecom stake, in line with its policy of reducing its interest in companies where it has no influence nor control.

At the same time it would gain a foothold in mainland Europe and an opening into the South American market where Telecom Italia is hoping to win a share of the potentially lucrative Brazilian market. Telecom Italia's interest seemed to centre on the global reach which the UK company could offer, particularly in the Asia-Pacific region.

A senior Telecom Italia executive confirmed yesterday that the group is intent on developing its Brazilian strategy. "We have a considerable presence in South America and the Brazilian telecommunications market could potentially provide around half of all the continent's subscribers," he said. "If we could win a stake in that deal, that would be of considerably more importance to us."

Exactly how the two companies intend to proceed with their partnership is unclear. Their international networks are complementary rather than competitive. Neither has great strength in North America, the source of most of the world's business traffic. C&W said yesterday the two companies were discussing "other ways of approaching those markets".

The question remains how robust a partner Telecom Italia can be until it resolves its internal conflicts. Vito Gamberale, head of its mobile phone subsidiary, Telecom Italia Mobile, who stood down as managing director of operations last month, is the latest in a series of senior executives to have clashed with Mr Rossignolo, who has made it clear he wants him to leave the company. Last night, however, it was unclear if Mr Gamberale would accept a severance package.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Ashtead	Yr to April 30	202.5	(147.6)	35.5♠	(28.3)	10†	(8)	1.655	Oct 12	1.465*	2.3	1.825*
Colt Telecom	6 mths to June 30	81.7	(33.5)	22.2L	(14.7L)	17L†	(13L)	-	-	-	-	-
Border Television	Yr to Apr 30	15.8	(13.6)	2.01♠	(2.74)	12.5	(16.8)	5	Sept 14	4.3	7.7	7
Druck Holdings	Yr to Mar 31	58.8	(54.5)	11.3	(9.69)	11.25	(9.43)	1.37	Oct 1	1.19	1.95	1.73
Ellis & Everard	Yr to Apr 30	732	(645.3)	32.1	(29.6)	24.7	(22.5)	7.1	Oct 8	6.7	10.6	10
Skillsgroup	6 mths to May 31	115	(101.6)	6.6	(6.5)	5.8	(5.8)	1.5	Oct 5	1.3	-	4.2

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Henderson Tech	Yr to Apr 30☆	137.2	(96.2)	1.25L	(0.04)	0.85L	(0.03)	-	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ΨAfter exceptional credit. †On increased capital. ΦAim stock. *After adjusting for scrip issue. ☆Comparatives for 4½ months.

هكذا من الأصل

EQUITIES

Europe rises on Japan hopes

EUROPEAN OVERVIEW

By Martin Dickson, Financial Editor

Trans-European equity indices edged higher yesterday amid hopes that Japan's electoral upset will lead to accelerated economic reform in Tokyo and relief at the agreement of an IMF aid package to Russia.

The FTSE Eurotop 100 index closed at 2966.68, up 7.59 points, while the broader Eurotop 300 index finished up 3.67 at 1286.00.

The Ebloc 100 index, which tracks companies in countries joining European monetary union in the first wave, finished at 1089.30, up 5.36.

The equity markets decided that the resignation of Ryutaro Hashimoto, the Japanese prime minister, following heavy losses in Sunday's upper house elections, would put extra pressure on his successor to kick-start the economy.

However, Eurozone fixed income markets weakened as the Russian loan agreement added further optimism on the world economy and demand for safe-haven bonds diminished. The 10-year German government issue was quoted in late trading at 100.37, down 0.330, to yield 4.702.

Among European equity sectors, the biggest gainer of the day was information technology, up 2.22 per cent, with SAP Pref jumping Ecu 16.8 to Ecu 561.10.

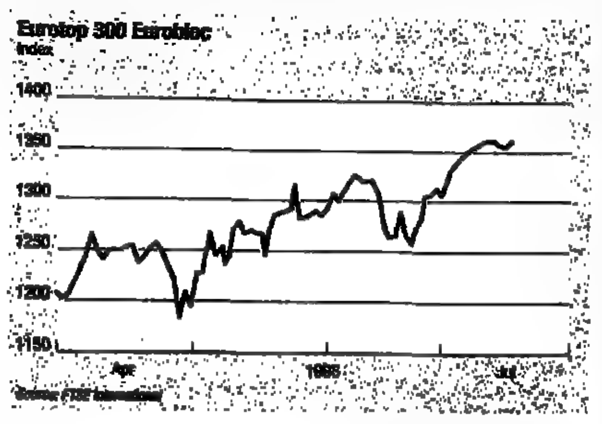
Water companies rose 1.91 per cent, while tobacco was up 1.54 per cent and life insurance 1.41 per cent.

Notable fallers included automobiles, down 1.13 per cent. Volkswagen fell Ecu 1.7 to Ecu 94.92, while Daimler Benz slipped Ecu 1.7 to Ecu 88.65.

In a note on sector valuations, ABN-Amro's European team noted that "growth" pharmaceuticals companies had been among the weakest second-quarter performers, due to slipping earnings estimates, notably among Swiss stocks.

That contrasted sharply with defensive telecoms stocks, which had enjoyed a sharp rise in ratings over the past two months.

In terms of trailing p/e's, the two sectors were now on almost identical relatives, and many investors might find it tempting to switch back from telecoms to drugs. A re-rating of food producers had put them on a p/e premium to food retailers for the first time.



FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

July 13

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total rate (Ecu)
FTSE Eurotop 300	1286.00	+0.29	+3.67	2.23	18.92	1316.48
FTSE Eurotop 100	2966.68	+0.26	+7.59	2.24	24.89	1057.23
FTSE Ebloc 100	1089.30	+0.49	[illegible]	1.86	12.05	1102.18

FTSE Eurotop 300 Regions

FTSE Eurotop Industry Sectors

THREE MONTH EURO FUTURES (LIFFE)

THREE MONTH EURO OPTIONS (LIFFE)

FTSE EUROTOP 100 INDEX FUTURES (LIFFE)

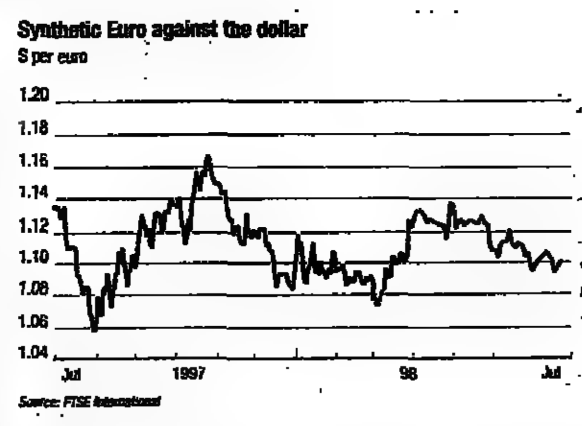
EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX)

OTHER INDICES

FTSE EUROTOP 300

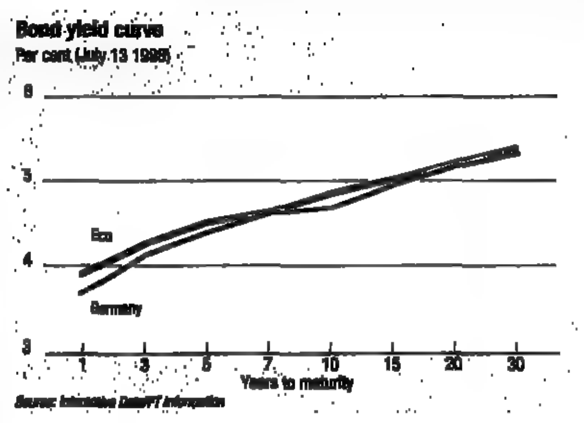
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES



EUROZONE CURRENCY CONVERGENCE

BONDS



EUROZONE CORPORATE BONDS

GOVERNMENT BOND SPREADS vs ECU

EUROZONE CREDIT SPREADS vs ECU

'Safe haven' sentiment turns sour

GOVERNMENT BONDS

By Jeremy Grant and John Labate

Prices took a tumble yesterday as the International Monetary Fund and Russia agreed on a financing package and investors reacted less negatively than expected to the departure of Japanese prime minister Ryutaro Hashimoto.

Bonds rose initially on developments in Japan but "safe haven" buying sentiment quickly turned sour as news of the Russian financing deal came through and investors digested the shifting political sands in Tokyo.

The benchmark 30-year US Treasury fell more than a full point on the day, knocking European prices lower. In Germany, bund futures fell to their lowest in nearly two weeks.

Investors also reacted negatively to a rise in the yen against the dollar, which hit Y144.50 in Tokyo trading. Comments by Robert Rubin, US Treasury secretary, that US dollar policy remained unchanged and was focused on yen weakness sent the dollar down in early trading.

Investors interpreted the departure of Mr Hashimoto as offering greater hope for reform than if the ruling LDP had remained in power.

However, analysts said that while the recent bull run had apparently peaked, it was too early to conclude that there was no life left in the market.

"I would not necessarily say this is the end but it does send some warning signals and it does focus attention very much on the domestic [economic] situation. In Europe, things are looking good, but in the US you still have inflation risk," said Graham McDevitt, at Paribas.

He said the biggest restraint on bond markets this week would be oversupply due to Russia's refinancing needs. Moscow said yesterday it planned to halt issues of government securities with a tenor of less than one year and replace them with seven-year to 20-year dollar eurobonds.

US TREASURY prices plunged in early trading. By early afternoon the 30-year bond had lost 1 1/32 to 106 7/32, sending the yield up to 5.678 per cent.

Shorter-term issues also fell. The 10-year note lost 13/32 to 101¼, yielding 5.458 per cent and the two-year note fell 1/16 to 99⅞, yielding 5.443 per cent.

News of the IMF package for Russian triggered a "flight from quality" out of Treasuries, according to Patrick Dimick, Treasury analyst at UBS Securities. "Sentiment indicators suggest that bonds were severely overbought," he said.

Retail sales and trade figures due this week may have little impact on the current tone of the market, which continues to trade mainly on currency concerns and international events.

"There's loads of top tier economic data coming this week, but I don't think it will change the big picture," Mr Dimick said.

Rumours that Asian central banks had been in the market selling Treasuries added to the negative tone for bond prices.

GERMAN BUNDS were mixed in the morning session but ended lower, following weakness in the US Treasury market.

"The early reaction to overnight news from Japan was limited," said Andy Bevan, senior international economist at Goldman Sachs. "Not until the US opening – when there was a sell-off in Treasuries – did it spill over to the European markets."

The September 10-year bund future settled down 0.16 points at 108.85 in hefty volume of 492,000 contracts traded in Frankfurt.

UK GILTS closed lower in sympathy with US Treasuries and were also dented by the Russian financing package. The September 10-year gilt future settled 0.26 points lower at 108.85 in volume of 43,000 contracts.

In the cash market, the spread between gilt and bund yields narrowed one basis point to 121 points.

However, analysts said UK gilts this week would be focusing more on domestic economic data, principally the British Retail Consortium's June sales monitor and official retail inflation data, both out this morning, and average earnings data tomorrow.

"I think it will be the earnings numbers that people will be watching most closely, because that's what the Bank [of England] appears to be watching," said Jonathan Loynes, UK economist at HSBC.

Gallaher expected with debut eurobond

By Jeremy Grant

Gallaher Group, the UK's largest manufacturer of cigarettes, is expected to launch a DM500m eurobond tomorrow, the fourth tobacco company to tap the capital markets in as many weeks.

The 10-year issue will be jointly led by HSBC Trinkaus and Goldman Sachs and is expected to be priced to yield 120 basis points over the benchmark bund.

Gallaher's foray into the capital markets underscores how investors are warming to tobacco companies as they grow more confident about anti-litigation battles in the US, bankers say.

Last week, Rothmans came to the market with a DM500m issue, following British American Tobacco and Philip Morris late last month, whose issues were both in D-Marks.

German investors in particular appear to be less concerned about exposure to tobacco companies given Germany's more liberal tobacco advertising regime, one banker said.

Another factor has been the search, especially in Germany, for high-yielding paper as government bond yields fall as part of convergence in Europe.

Bankers say given their credit ratings, tobacco groups are less risky than emerging market debt.

"Many investors across Europe want to achieve additional exposure at the lower end of the credit spectrum. Each of the tobacco companies provides enhanced yield relative to borrowers in the same category," said Brian Lawson, at ABN Amro.

Gallaher's issue will be rated Baa2 by Moody's and BBB+ by Standard & Poor's.

NEWS DIGEST

ELECTRONIC TRADING

CBOT joint venture to launch Treasuries system

Chicago Board Brokerage, the joint venture set up by the Chicago Board of Trade and Prebon Yamane, said yesterday it planned to go ahead with its launch of an electronic trading system for US Treasury securities, after Cantor Fitzgerald, the US broker-dealer, failed to get a preliminary injunction which would have halted the venture.

CBB said testing of the system would start immediately and the formal launch would be on July 31. It said it had nine paying customers at present, and expected about 44 screens to be utilised at the outset. The Chicago Board of Trade is the largest of the futures markets in the US, while Prebon Yamane is a leading broker in the over-the-counter market.

However, both CBB and Cantor took heart from the ruling by Judge Myron Steele, in the Delaware Chancery court, and Cantor said it still intended to pursue a permanent injunction. The issue centres on the use by CBB of software provided by Market Data Corporation, a company controlled by Iris Cantor, widow of one of Cantor's founders, and Rod Fisher, another Cantor partner. Cantor has argued that the provision of the software to a rival breached its partnership agreement.

In denying the request for a preliminary injunction, the court found Cantor would not suffer irreparable damage if CBB went ahead. That was "most gratifying" said CBB. "The Court of Chancery's opinion ... affirmed the value of the Market-Power system, finding that: 'The public has an interest in competitive trading and in the introduction of innovative efficiencies into the marketplace.'"

But the US broker-dealer noted the judge's subsequent statement that "if [Cantor] succeeds on the merits of its ... claims (and the court has already explained that [Cantor] is reasonably likely to do so), it is equally likely that it will also be able to prove that neither MDC or CBB can retain any benefit".

"CBB's decision to go ahead, in the face of these warnings, may well expose CBB, MDC, the Chicago Board of Trade and Prebon Yamane" as well as the clearing operations to "substantial risk of forfeiture and liability", said Rodman Ward, Cantor's counsel.

The spat over CBB comes at a time when Cantor – in partnership with the smaller New York Board of Trade futures exchange – is seeking to launch an electronic trading system for US Treasury futures, which could undercut some of CBOT's interest-rate related futures business. The Cantor/NYBOT scheme still requires regulatory approval.
Nikki Tait, Chicago

FUTURES AND OPTIONS

EuroCanada products from CME

The Chicago Mercantile Exchange today launches futures and options contracts on EuroCanada interest rates. The contracts, similar to the CME's benchmark Eurodollar products, are designed to help institutions and investors with Canadian interest rate exposure to manage their risk. **Paul Solman**

Italian bank issues in euros

INTERNATIONAL BONDS

By Edward Luce

The eurobond markets took on a summer holiday atmosphere yesterday, with just a few small offerings to keep investors alert.

Apart from one or two large D-Mark offerings expected in the next few days, the only notable bonds in the issuance pipeline include an issue denominated in euros from Cyprus, a 10-year $1bn offering from Spain and a $1bn eight-year global from Prudential.

"There is still plenty of scope for borrowers to come to the market, but activity seems to be winding down for the summer," said one syndicate head.

INTERBANCA, an Italian bank that is fully owned by Banco Antoniana Popolare Veneta, the co-operative bank, made its debut in the international bond markets with an E200m offering.

The bond, which came at an all-in cost to the borrower of 24.5 basis points over Libor, was described as a strategic offering by an official at ABN Amro, joint lead manager with Paribas.

"Interbanca paid more than what it would have paid in the Italian domestic market to attract a new investor base," said the banker. The borrower has an implied rating of BBB+.

ICI CO-ORDINATION CENTRE, one of the three funding arms of the British chemicals company, made its first visit to the bond markets for some time with a $200m floating-rate note offering.

The bond, which came at an all-in cost of 12.5 basis points over Libor, follows a number of private placements by ICI under its medium-term notes programme. The deal was lead-managed by Deutsche Bank.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Countrywide Corp Ltd(e)†	200	(a1)	99.89R	Jul 2003	0.175R	-	Warburg Dillon Read
ICI Co-ordination Centre†	200	(b)	100.05	Feb 2000	0.05	-	Deutsche Bank
Colonial Finance(c)†	150	(c)	99.771R	Jul 2005	0.275R	-	JP Morgan Securities
D-MARKS							
Westdeutsche LB(d)	2bn	4.75	99.39R	Sep 2007	0.14R	+15½(6Jul07)	(d1)
SWISS FRANCS							
L-Bank	150	2.75	101.25	Aug 2002	1.75	-	ABN Amro Bank(Zurich)
ECU/EUROS(e)							
Interbanca‡	200	(f)	99.89R	Jul 2003	0.15R	-	ABN Amro/Paribas
LB Rheinland-Pfalz*	50	4.0(g)#	100.00	Jul 2002	0.94915	-	IBJ Intl/Wako Intl
NEW ZEALAND DOLLARS							
Bayerische Vereinsbank	100	8.00§	101.12	Aug 2000	1.25	-	RBC DS Global Markets
GREEK DRACHMA							
Kingdom of Denmark	10bn	8.50	99.95R	Jul 2001	0.25R	-	B Stearns/NMB of Greece

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable from 30/7/01 at par. a1) 3-mth Libor +12½bp. b) 3-mth Libor +12½bp. c) Callable from Jul 02 at par. c1) 3-mth Libor +45bp. d) Oeffentliche Pfandbrief. d1) Joint book-runners: BayerLB, BayerVB, CDC, Commerzbank, Deutsche, DG, DGZ, LB Rheinland-Pfalz, SachsenLB and WestLB. e) Pays in Ecu prior to Emu. Spread relates to French govt Ecu bonds. f) 3-mth Libor +15½bp. g) Long last coupon. § Long 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jul 13	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	102.9933	5.24	+0.02	+0.06	-0.26	+0.02
	10/07	10.000	132.0900	5.48	+0.04	+0.03	-0.06	-1.20
Austria	09/00	7.000	103.5400	3.80	+0.02	-0.02	-0.15	+0.01
	07/07	5.625	105.7300	4.83	+0.06	+0.05	-0.01	-0.75
Belgium	01/00	4.000	99.6300	4.03	+0.04	+0.03	-0.05	+0.45
	03/07	6.250	109.6000	4.87	+0.05	+0.04	-0.02	-0.73
Canada	09/00	4.750	99.5400	5.16	-0.01	-0.01	-0.06	+0.73
	06/07	7.250	113.6000	5.29	+0.03	+0.02	-0.01	-0.88
Denmark	12/99	6.000	102.3000	4.25	+0.01	+0.03	-0.06	+0.22
	11/07	7.000	115.1800	4.85	+0.04	+0.04	-0.06	-1.14
Finland	01/99	11.000	103.4856	3.65	+0.05	+0.01	-0.09	-0.07
	04/06	7.250	115.5680	4.70	+0.05	+0.01	-0.04	-1.08
France	01/00	4.000	100.0500	3.92	+0.04	+0.02	-0.13	+0.32
	10/04	6.750	112.0800	4.48	+0.03	+0.02	-0.07	-0.44
	10/07	5.500	105.2900	4.75	+0.05	+0.04	-0.01	-0.82
	10/25	6.000	109.5100	5.33	+0.05	+0.05	-	-0.85
Germany	09/99	4.000	100.2300	3.76	-	-0.02	-0.06	+0.30
	11/04	7.500	115.8600	4.55	+0.04	+0.03	-0.05	-0.53
	07/07	6.000	109.0600	4.73	+0.04	+0.03	-0.04	-0.80
	07/27	6.500	117.3300	5.31	+0.04	+0.03	-0.01	-1.08
Ireland	04/99	6.250	100.6800	5.17	+0.05	-0.07	-0.22	-0.74
	08/06	8.000	119.6800	4.98	+0.05	+0.03	-0.05	-1.39
Italy	08/00	6.000	102.9200	4.31	+0.01	-0.02	-0.13	-1.52
	08/02	6.250	106.1000	4.48	+0.01	-0.02	-0.12	-1.42
	07/07	6.750	113.1100	4.92	+0.02	-	-0.07	-1.83
	11/26	7.250	125.2800	5.46	+0.03	+0.03	-0.01	-1.72
Japan	03/00	6.400	109.7500	0.62	-	+0.04	+0.05	-0.29
	12/02	4.800	116.1900	1.04	+0.03	+0.09	+0.17	-0.67
	09/05	3.000	110.3900	1.47	+0.04	+0.10	+0.16	-0.81
	09/17	3.000	111.0100	2.26	+0.04	+0.08	+0.21	-0.72
Netherlands	11/99	7.500	104.3899	4.02	+0.10	+0.10	-0.01	+0.40
	02/07	5.750	107.0329	4.73	+0.04	+0.03	-0.02	-0.74
New Zealand	03/00	9.000	98.8725	7.24	+0.03	-0.01	-0.81	+0.51
	11/06	8.000	110.3335	6.36	-0.01	-0.04	-0.41	-0.44
Norway	01/99	9.000	101.8000	5.28	+0.04	+0.02	+0.47	+0.88
	01/07	6.750	109.1000	5.36	+0.03	-0.08	-	-0.84
Portugal	03/99	8.500	102.7400	4.29	+0.06	-0.02	+0.08	-0.85
	02/07	6.625	111.4600	4.95	+0.04	+0.02	-0.01	-1.31
Spain	07/99	7.400	103.2000	4.18	+0.03	+0.02	-	-0.89
	03/07	7.350	116.9900	4.90	+0.04	+0.04	-0.03	-1.28
Sweden	01/99	11.000	103.3490	4.12	[illegible]	+0.08	-0.06	-0.52
	08/07	8.000	122.5640	4.88	+0.02	+0.01	-0.06	-1.58
Switzerland	03/00	5.000	104.3000	2.31	+0.07	+0.21	+0.39	+0.97
	06/07	4.500	109.3000	3.28	+0.11	+0.20	+0.34	-0.02
UK	08/99	6.000	98.8047	7.17	+0.01	-0.05	+0.26	+0.16
	11/04	6.750	103.7256	6.03	+0.03	+0.02	+0.19	-1.02
	12/07	7.250	110.2188	5.82	+0.03	+0.03	+0.20	-1.16
	06/21	8.000	130.8750	5.59	+0.02	+0.03	+0.15	-1.36
US*	10/99	5.625	100.1640	5.49	-0.01	+0.01	+0.03	-0.40
	11/04	7.875	112.3360	5.54	+0.04	+0.05	+0.05	-0.56
	08/07	6.125	103.9140	5.57	+0.06	+0.07	+0.05	-0.65
	08/27	6.375	108.7730	5.75	+0.07	+0.12	+0.04	-0.78
ECU	01/00	4.000	99.8200	4.04	-	-0.02	-0.14	-0.08
	04/07	5.500	104.8000	4.80	+0.08	+0.05	-0.02	-1.04

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Jul 13	Bid Yield	Spread vs Bonds	Spread vs T-Bonds
Australia	5.48	+0.78	+0.02
Austria	4.90	+0.20	-0.56
Belgium	4.93	+0.23	-0.53
Canada	5.29	+0.59	-0.17
Denmark	4.94	+0.24	-0.52
Finland	4.89	+0.19	-0.57
France	4.83	+0.13	-0.63
Germany	4.70	-	-0.76
Ireland	5.01	+0.31	-0.45
Italy	4.98	+0.28	-0.48
Japan	1.71	-2.99	-3.75
Netherlands	4.81	+0.11	-0.65
New Zealand	6.39	+1.69	+0.93
Norway	5.37	+0.67	-0.09
Portugal	4.97	+0.27	-0.49
Spain	5.01	+0.31	-0.45
Sweden	4.92	+0.22	-0.54
Switzerland	3.28	-1.42	-2.18
UK	5.74	+1.04	+0.28
US	5.46	+0.76	-
ECU	4.87	+0.17	-0.59

Source: Interactive Data/FT Information
London closing. * New York closing.
Annualised yield basis.

EMERGING MARKET BONDS

Jul 13	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	98.1230	7.60	-0.14	-0.11	+2.15
Poland	07/04	7.125	BBB-	103.3912	6.43	-0.07	-0.36	+0.98
Russia	06/07	10.000	B+	78.1500	14.42	-1.02	+1.93	+8.96
LATIN AMERICA								
Argentina	09/27	9.750	BB	96.5851	10.11	-0.09	-0.51	+4.43
Brazil	05/27	10.125	BB-	90.3000	11.28	-0.24	-0.28	+5.58
Mexico	05/26	11.500	BB	116.7000	9.73	-0.07	-0.14	+4.06
ASIA								
China	07/06	7.750	BBB+	105.7551	6.79	-0.01	-0.18	+1.33
Philippines	10/16	8.750	BB+	96.1189	9.19	-0.14	-0.56	+3.64
Thailand	04/07	7.750	BBB-	89.6255	9.54	-0.08	+0.57	+4.08
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.0072	8.01	-0.14	-0.21	+2.57
South Africa	10/06	8.375	BB+	102.9225	7.87	-0.14	+0.11	+2.41
Turkey	09/07	10.000	B	99.2914	10.11	-0.16	+0.22	+4.65
BRADY BONDS								
Argentina	03/23	5.750	BB	76.1250	[illegible]	[illegible]	[illegible]	+2.63
Brazil	04/14	[illegible]	BB-	[illegible]	[illegible]	[illegible]	[illegible]	+4.89
Mexico	12/19	6.250	BB	83.5000	[illegible]	[illegible]	[illegible]	+2.28
Venezuela	03/07	6.750	B+	78.0000	[illegible]	[illegible]	[illegible]	+3.49

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	104.36	105.09	+0.19	105.21	105.04	81,125	134,804
Dec	-	104.75	+0.19	-	-	-	22

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Puts Jul	Puts Aug	Puts Sep
102	3.00	3.03	2.80	0.01	0.08	0.28
103	2.02	2.09	2.01	0.02	0.10	0.37
104	1.07	1.23	[illegible]	0.07	0.24	0.70
105	0.37	0.57	0.84	0.37	0.57	1.17

Est. vol. total, Calls 4,265 Puts 10,072. Previous day's open int., Calls 41,629 Puts 39,797.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	109.10	108.85	-0.36	109.15	108.54	9021	66309
Dec		108.00	-0.36			0	224

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
10850	0.34	0.56	0.46	0.73	0.19	0.43	0.98	1.23
[illegible]	0.12	0.34	0.29	0.53	0.47	0.69	1.28	1.53
10950	0.04	0.18	0.18	0.36	[illegible]	1.03	1.68	1.86

Est. vol. total, Calls 21465 Puts 15080. Previous day's open int., Calls 169868 Puts 134370

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	106.00	105.88	-0.12	106.04	105.76	105,702	270,487
Dec	-	-	-	-	-	-	13,059

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	121.40	120.70	-0.40	121.50	120.58	33439	104795
Dec	108.95	108.95	-0.40	108.95	108.95	60	3665

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Aug	Calls Sep	Puts Aug	Puts Sep
10300				
10350				
10400				

Est. vol. total, Calls 100 Puts 610. Previous day's open int., Calls 5430 Puts 13140

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	110.30	109.95	-0.32	110.34	109.89	56,860	117,604
Dec	-	110.13	-	-	-	-	-

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	103.16	103.18	-0.14	103.16	103.15	1	2639

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	109.17	108.85	-0.28	109.31	108.76	44658	138626
Dec		109.01	-0.32			0	0

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Aug	Calls Sep	Calls Oct	Puts Aug	Puts Sep	Puts Oct
10850	0.61	0.95	1.28	0.28	0.60	0.77
10900	0.33	0.67	1.01	0.48	0.82	1.00
10950	0.16	0.46	0.78	0.81	1.11	1.27

Est. vol. total, Calls 1427 Puts 1376. Previous day's open int., Calls 62930 Puts 24518

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	123-28	122-28	-0-24	124-02	122-25	208,511	-
Dec	123-18	122-17	-0-25	123-23	122-16	18,403	171,617
Mar	-	-	-	-	-	1,000	18,578

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	131.98	131.71		131.98	131.70	2933	n/a
Dec	131.72	131.45		131.72	131.52	380	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	-	104.02	+0.22	-	-	0	18

US CORPORATE BONDS

Jul 13	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
Pac Bell	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NY Tel	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CWE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GECC	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banc One	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US West	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
WMX Tech	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wal Mart	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dayton Hud	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FHLMC	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SLMA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FNMA	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FFCB	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Stone Cont	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AK Stl	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacsta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

Jul 13	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Spread v Govts
EIB	03/07	5.750	AAA	105.1600	4.88	+0.04	+0.02	+0.12
Spain	01/07	5.750	AA	106.1300	4.84	+0.04	-0.02	+0.11
Philip Morris	03/04	6.375	A	101.5300	6.06	+0.07	+0.24	+0.65
Finland FRN	09/02	3.620	AA	100.0641	3.76	+0.04	-0.06	-0.50
Austria	01/04	5.500	AAA	104.6300	4.63	+0.04	-0.04	+0.05
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing. Standard & Poor's ratings. Yields: Local market standard. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities — UK Indices

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Yen bounces back as Hashimoto goes

MARKETS REPORT

By Daniel Dombey

The yen fell sharply yesterday after the resignation of Ryutaro Hashimoto, the Japanese prime minister. But it soon rebounded as the belief spread that Mr Hashimoto's departure could hasten economic reform.

"The initial reaction to the news was to buy the dollar and sell the yen," said Paul Chertkow at Bank of Tokyo-Mitsubishi. "But on reflection the markets have become much more ambiguous about how this will affect the policies needed to deal with Japan's economic problems."

After hitting Y144.26 against the dollar in early trading in Tokyo, the yen ended the European trading day at Y140.9, marginally stronger than on Friday.

Meanwhile, the D-Mark rose against the dollar on news of a $22.6bn IMF-led package for Russia, which has substantial banking relations with Germany.

International policy-makers hope the developments in Tokyo and Moscow will reduce the pressure on emerging market and commodity-based currencies throughout the world. The problems of the yen and, to a lesser extent, the rouble have increasingly been seen as weathervanes for emerging market risk. The currencies' falls proceeded in tandem with a decline in demand for commodities.

But while there is a general belief that the IMF package is enough to stave off the immediate risk of a Russian devaluation, there is far less consensus over the yen's prospects as Japan hunts for a new prime minister.

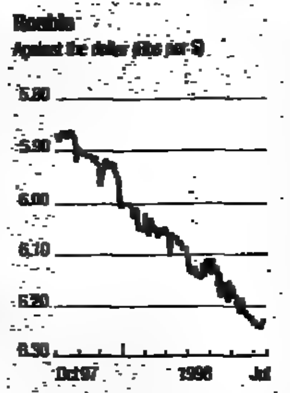
■ The markets agreed about the importance of Mr Hashimoto's resignation and the disastrous showing for his Liberal Democratic party in elections to the country's upper house.

But whether the news was *deemed good or bad* depended in part on judgments about Mr Hashimoto himself.

To part of the market, he was damaged goods, unenthusiastic about the tax cuts investors clamoured for and unavoidably identified with a disastrous stab at greater fiscal responsibility last year. This view interprets the result of the elections as a warning shot to the LDP to speed up efforts at fundamental economic reform. It also focuses on indications that banking and tax initiatives are continuing, despite the vacuum at the centre of government.

Rouble

Against the dollar (Rbs per $)



Source: Datastream/ICV

To others, Mr Hashimoto's resignation removes a prime minister who had become increasingly receptive to the idea of bank reform and a fiscal stimulus package. According to this view the initiative for reforms can only slow down as a consequence of his going.

"This election result reduces the influence of US policy on Japan and undermines the previous policy of defending the yen," said Avinash Persaud at JP Morgan in London. "It has got to be bad for the yen. The perception that we would have a revitalised LDP backing Washington-backed reforms has gone out of the window."

■ The news from Russia *helped the D-Mark rise to* DM1.804 against the dollar by the end of the London day, up a pfennig and a half on Friday.

The D-Mark also rose against sterling, which lost half a pfennig to end the day at DM2.962.

The IMF-led package should enable the Russian government to see its way through its obligations in the medium term. In return, Russia has promised to cut its budget deficit and reform its tax system.

The Russian government will also convert domestic debt into dollar-denominated bonds, in an attempt to bring down interest rates, *which have hurt the economy* and increased the government's cost of borrowing.

"The IMF package has got rid of the risk of devaluation for a considerable *period of* time, and allows Russia to do some financial restructuring," said Tony Norfield at ABN-Amro in London. "It is something that has taken away a considerable amount of emerging-market risk."

The rouble itself, which is very illiquid, remained *steady at about R6.23 against* the dollar. But September future contracts shifted from R7.10 on Friday to R6.80 midway through trading yesterday, a 4.5 per cent rise.

■ POUND IN NEW YORK

Jul 10	—Latest—	— Prev. close —
£ spot	1.6420	1.6330
1 mth	1.6383	[illegible]
3 mth	1.6340	1.6245
1 yr	1.6130	1.6030

■ OTHER CURRENCIES

Jul 13	£	$
Czech Rp	52.3177 - 52.4388	31.8800 - 31.9150
Hungary	359.188 - 359.571	218.790 - 218.880
Iran	4926.18 - 4925.10	3000.00 - 3000.00
Kuwait	0.5043 - 0.5046	0.3072 - 0.3072
Peru	4.7856 - 4.7950	2.9150 - 2.9190
Poland	5.6655 - 5.6772	3.4510 - 3.4580
Russia	10.2245 - 10.2257	[illegible]
U.A.E.	6.0285 - 6.0336	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

BASE LENDING RATES

[illegible]

COMMODITIES & AGRICULTURE

Deregulation boosts US dairy prices

By Nikki Tait in Chicago

Anyone seeking a star product on the US commodity markets should look no further than butter. Deregulation of the US dairy sector, it seems, is set to hit consumers' wallets – even if dairy products, such as butter and ice-cream, still add to their waistlines.

In sharp contrast to the sagging prices of grains and many of the meat products that dominate US agricultural markets, butter has soared to record highs.

The cash price, established weekly at the Chicago Mercantile Exchange, stood at about $1.12 cents a pound at the beginning of the year; by the end of last week, it was $1.98 cents.

That is almost double the level of a year ago, when butter was trading at about $1.07 cents a pound. Butter futures for the September contract, meanwhile, are trading at about $1.86 a pound.

Already, the impact of this price rise is being felt in the aisles of the nation's supermarkets.

Most ice-cream manufacturers and butter suppliers increased their wholesale prices in late June or early July, and some of that has been passed on at the retail level.

Analysts have even scaled back profit estimates for some well-known dairy products companies, such as Ben & Jerry's, the Vermont-based ice-cream maker.

Reasons for the spurt in butter prices are various. Economists and producers are inclined to point the finger first at deregulation of the dairy sector.

Traditionally, dairy farmers have been among the most protected in the agricultural sector but in recent years the importance of price supports has been dwindling, and now the 1996 Freedom to Farm Act requires all dairy price supports to be phased out by 2000.

As a result, the buffer that used to exist because of the government's stockpiles of dairy products, which could be released on to the market in times of shortage, no longer exists.

"Within the industry, we're seeing more price volatility than we're used to – and the consumer will see that, too," says the Dairy Farmers of America co-operative which, with 22,000 members, is one of the nation's largest.

Land O'Lakes, the Minnesota-based dairy processor, agrees. Butter, it says, "is now a market-driven product, and much more subject to market demand".

However, if deregulation now permits supply and demand forces to be translated into market price movements, the fact remains that underlying trends are favourable.

Part of the reason is a shift in consumer buying patterns that has seen demand for dairy products rise again, as customers either shrug off health-related concerns or reason that such products, in moderation, are not harmful.

Supply, meanwhile, may have been curtailed by a shorter-term switch to cheese-manufacturing by some dairy processors.

A recent burst of hot weather in the US also means demand from ice-cream companies has increased when milk production, and its butter-fat content, is low.

Farmers in California, a significant producer of milk, were affected by earlier rain storms, while the heat has affected cows in various southern states.

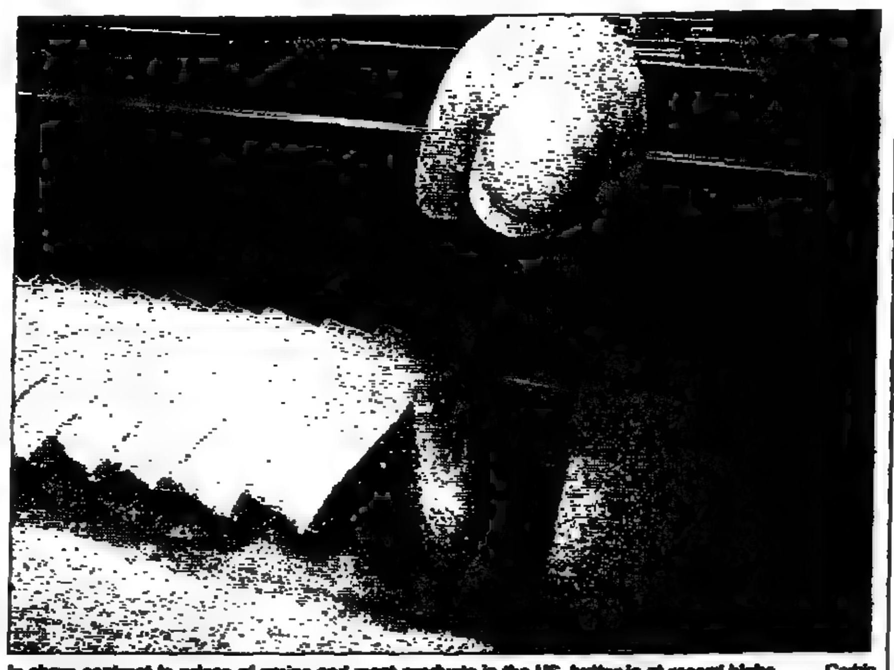
Ironically, milk producers have not yet seen much impact but the DFA thinks this reflects the role government price-setting still plays in this market, and predicts that the uptick will begin to show in a few weeks time. "It is going to feed through next month – it's just a lagged effect," it says.

How long current butter prices will last is a moot point. Some companies, such as Land O'Lakes, think the phenomenon will be relatively short-term.

For a start, some of the seasonal demand will probably ebb away as the summer passes. Milk production will probably increase as the hot weather wanes and rising prices of dairy products on supermarket shelves could help to lessen consumer demand.

Another possible damper on the market is the availability of imported supplies.

The latest report from US Department of Agriculture, issued last Friday, suggested additional volumes of butter were "on the water" headed for the US from places such as eastern Europe. That, notes one processor, means they will probably arrive just as prices are declining anyway.



In sharp contrast to prices of grains and meat products in the US, butter is at record highs Corbis

Copper recoups early losses

MARKETS REPORT

By Robert Corzine and Gary Mead

Base metals remained weak on the London Metal Exchange. Nickel touched a fresh 4½-year low, while three-month copper initially nudged a 12-year low.

However, copper later rose to close $42 higher at $1,648 a tonne, boosted by investment fund buying, itself stimulated by news that several of China's copper producers had agreed to reduce output by 90,000 tonnes this year from the original target of 750,000 tonnes.

The decision to cut production was taken at the weekend by the recently formed Co-ordinating Committee of Non-Ferrous Metals, formed by China's six biggest producers, which collectively account for 75 per cent of the country's output.

The move is an effort to prevent further price slides; last Friday three-month copper futures on China's domestic metal exchange fell 14 per cent.

Other metals traded quietly, with zinc moving $10 higher to $1,050 a tonne, while nickel finished $10 lower at $4,160 a tonne, and aluminium ended $24 higher at $1,318 a tonne.

Crude oil prices remained in the doldrums as a new report suggested that output from the Organisation of Petroleum Exporting Countries rose in June, in spite of a new agreement to cut production.

The bellwether Brent Blend contract for August delivery was quoted at $12.91 a barrel in late trading on London's International Petroleum Exchange, up five cents from Friday's close.

The Middle East Economic Survey reported that Opec output in June was up 37,000 barrels a day to 28.25m b/d, with Iranian production especially buoyant, at an estimated 3.83m b/d, up 230,000 b/d on May.

That is more than 800,000 barrels a day above the level it promised to adhere to when Opec agreed on its most recent cuts at the end of June.

The size of the reported Iranian increase depressed markets, with the Brent contract falling at one point to $12.60 before recovering in later trading.

On the London International Financial Futures Exchange, both coffee and cocoa had a day of thin trading, with small volumes and scant buying interest.

September coffee sank to $1,543 a tonne by the close, down $18, with just 2,756 lots changing hands.

September cocoa ended 28 lower at £1,076 a tonne, as the market absorbed the news that Ivory Coast is on target to achieve its third successive bumper crop, of at least 1.1m tonnes, in the 1998-99 season.

India cuts import duty on edible oils

By Kunal Bose in Calcutta

India has moved to control runaway prices of coconut oil by lowering the import duty on most edible oils to 15 per cent and asking the state trading corporation to import 150,000 tonnes of palm oil from Malaysia and Indonesia.

Prices of groundnut oil, the most popular cooking oil in India, have jumped about 46 per cent to Rs51 ($1.20) a kg since January. Supplementary oils, such as rapeseed, soyabean and palm oil, have rise by 30 per cent to 45 per cent.

According to the Central Organisation of Oil Industry Trade, the rise is the result of a shortfall in supplies, and a further rise is possible in September, when the festival season creates extra demand for oils.

The Indian oil seeds crop in 1997-98 (October to September) is down 2 per cent to 24.48m tonnes compared with the year earlier. Domestic demand will rise 360,000 tonnes to 9.56m tonnes this year, while domestic supply will remain at last year's 7.7m tonnes.

The Eastern India Oils Industry and Trade Association said prices could have been controlled by earlier imports.

In the first eight months of the current oil year, India imported only 780,000 tonnes of vegetable oils – nearly 30 per cent less than in the same period of 1996-97. India imported 1.7m tonnes last year. This year, imports will be about 1.5m tonnes, officials said.

"In spite of the inadequate domestic supply and the expected rise in world prices, Indian traders were slow to make import contracts as they believed the government would reduce the customs duty," said EIOITA. "The government is to blame for the fall in oil imports."

Asian economic weakness hits demand for steel

By Gary Mead

Continuing weakness in Asian economies has tarnished prospects for a number of commodities, especially metals. The latest to join the list is steel, demand for which is expected to fall 0.7 per cent this year and to grow by only 2.6 per cent in 1999, following growth in 1997 of 5 per cent.

Steel demand in Asia is likely to fall by 4 per cent this year according to investment bank Goldman Sachs. With Asian prices "much lower than those in other regions" the global market is now facing "too much steel searching for a home".

As with other commodities, it is too early to tell if the worst is yet over. Continued weakness of the Japanese yen and anxiety over the medium-term stability of the Chinese renminbi (China is the world's biggest consumer of steel after the US) is undermining confidence in the market and could force further downward price revisions.

Goldman Sachs expects global steel production to fall slightly in 1998 – with declines in eastern Europe, Japan and Asia generally – but to increase in 1999.

In South Korea, the world's second-largest producer and one of the Asian region's worst-hit economies, domestic demand for steel is likely to shrink by 20 per cent this year.

There are however some contradictions in the market. Demand in the US is currently "higher than at any time during the past 30 years," and was 7.7 per cent higher in the first four months of 1998 than for the same period last year.

Inventories in the US are relatively low, and while cheaper Asian imports have increased, they have done so at a slower rate than might be expected, given the Asian economic slowdown.

Despite these factors, prices in the US have "peaked and will decline during the second half of the year", as already planned capacity expansion – adding to the current estimated global capacity of 830m tonnes – begins to make its impact, and the market moves into seasonally weaker demand later in the year.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1273-4	1298.5-300.0
Previous	1284-5	1290-91
High/low		1315/1285
AM Official	1268-3.5	1289.5-90.0
Kerb close		1313-3.5
Open int.	n/a	
Total daily turnover	n/a	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1240-50	1175-80
Previous	1210-20	1170-73
High/low		1186/1175
AM Official	1225-40	1172-5
Kerb close		1175-80
Open int.	n/a	
Total daily turnover	n/a	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	529-30	524-5
Previous	532-3	532-3
High/low	[illegible]	[illegible]
AM Official	[illegible]	[illegible]
Kerb close		[illegible]
Open int.	[illegible]	
Total daily turnover	[illegible]	

■ NICKEL ($ per tonne) [illegible]

■ TIN ($ per tonne) [illegible]

■ ZINC, special high grade ($ per tonne) [illegible]

■ COPPER, grade A ($ per tonne) [illegible]

■ LME AM Official £/$ rate: [illegible]

LME Closing £/$ rate: [illegible]

■ HIGH GRADE COPPER (COMEX) [illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild) [illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	291.7	+0.8	–	–	–	–
Aug	292.4	+0.8	293.3	289.7	15,273	81,786
Oct	294.7	+0.8	295.2	292.1	583	6,117
Dec	296.7	+0.8	297.4	294.2	800	23,783
Feb	298.4	+0.8	297.0	297.0	283	13,123
Apr	300.2	+0.8	298.6	299.6	300	8,486
Total					18,983	176,040

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	386.7	-0.6	388.0	386.0	130	630
Oct	377.7	-0.6	380.5	376.0	732	9,706
Jan	378.2	-0.6	378.5	378.5	58	482
Apr	378.2	-0.6	–	–	3	14
Total					997	10,836

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	287.35	+0.10	288.50	285.50	148	3,276
Dec	273.35	+0.10	275.00	275.00	40	979
Mar	274.35	+0.10	–	–	–	20
Total					188	4,275

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.) [illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel) [illegible]

■ CRUDE OIL IPE ($/barrel) [illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls) [illegible]

■ GAS OIL IPE ($/tonne) [illegible]

■ NATURAL GAS IPE [illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu) [illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls) [illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	75.50	-0.30	76.00	75.60	25	80
Sep	71.15	+0.65	–	–	–	146
Nov	73.15	+0.65	73.25	73.00	91	3,646
Jan	75.15	+0.65	75.25	75.00	57	1,395
Mar	77.00	+0.60	77.00	76.85	70	727
Total					243	6,403

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	266.00	+0.25	267.50	265.50	736	607
Sep	274.25	–	276.00	274.00	7,007	44,629
Dec	289.75	+0.50	291.50	288.00	10,219	48,988
Mar	304.00	+1.50	304.50	302.25	1,230	13,731
May	310.00	+1.50	311.50	310.00	177	2,186
Jul	321.00	+1.50	321.50	319.50	334	3,896
Total					19,862	118,280

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	237.00	+3.25	238.00	234.50	6,249	6,307
Sep	239.50	+3.00	241.00	237.00	23,085	91,004
Dec	243.50	+3.00	245.50	241.00	52,288	144,805
Mar	252.25	+3.00	254.25	250.25	2,707	23,065
May	257.75	+2.75	259.50	256.00	1,123	5,159
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne) [illegible]

■ SOYABEANS CBT [illegible]

■ SOYABEAN MEAL CBT [illegible]

■ SOYABEAN OIL CBT [illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne) [illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point) [illegible]

PULP AND PAPER

■ PULPEX (BALI) [illegible]

VOLUME DATA [illegible]

FUTURES DATA All futures data supplied by CMS.

Minor Metals from Metal Bulletin [illegible]

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1046	-8	–	1050	3	55
Sep	1076	-8	1083	1073	365	37,905
Dec	1104	-8	1111	1101	608	41,442
Mar	1127	-8	1136	1124	755	37,554
May	1144	-8	1151	1145	211	14,086
Jul	1160	-8	1169	1159	50	6,353
Total					[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1538	-14	1560	1545	8	22
Sep	1570	-14	1608	1571	2,324	28,143
Dec	1621	-12	1645	1618	488	20,715
Mar	1660	-13	1676	1652	67	11,010
May	1681	-13	1691	1691	–	4,390
Jul	1703	-13	–	–	–	1,896
Total					2,959	71,889

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Jul 10		
Daily	–	1295.36

■ COFFEE LIFFE [illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs) [illegible]

■ COFFEE (ICO) (US cents/pound) [illegible]

■ WHITE SUGAR LIFFE [illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs) [illegible]

■ COTTON NYCE (50,000lbs; cents/lbs) [illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs) [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	61.800	-1.175	62.975	61.825	9,826	38,233
Oct	62.375	-1.275	63.500	62.175	5,366	27,802
Dec	64.200	-1.200	65.350	64.000	2,113	11,191
Feb	65.800	-0.875	66.800	65.500	428	4,226
Apr	67.350	-0.750	68.150	67.300	286	2,048
Jun	66.175	-0.650	66.750	66.050	34	594
Total					18,082	84,144

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	50.275	-1.575	51.800	50.150	1,228	2,265
Aug	50.475	-0.800	51.700	49.775	5,781	14,973
Oct	46.400	-0.775	47.225	45.300	1,804	7,323
Dec	46.325	-1.075	47.650	46.000	1,208	5,181
Feb	49.500	-0.550	51.050	49.300	386	1,147
Apr	48.850	-0.900	50.400	48.600	132	518
Total					10,682	32,113

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	56.075	+1.975	58.250	55.000	366	700
Aug	53.875	+1.725	54.100	50.600	1,836	3,604
Feb	52.900	+1.900	52.600	50.450	[illegible]	144
Total					2,190	4,390

LONDON TRADED OPTIONS

■ ALUMINIUM (99.7%) LME [illegible]

■ COPPER (Grade A) LME [illegible]

■ COFFEE LIFFE [illegible]

■ COCOA LIFFE [illegible]

■ BRENT CRUDE IPE [illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) [illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne) [illegible]

■ NATURAL GAS (Pence/therm) [illegible]

■ OTHER [illegible]

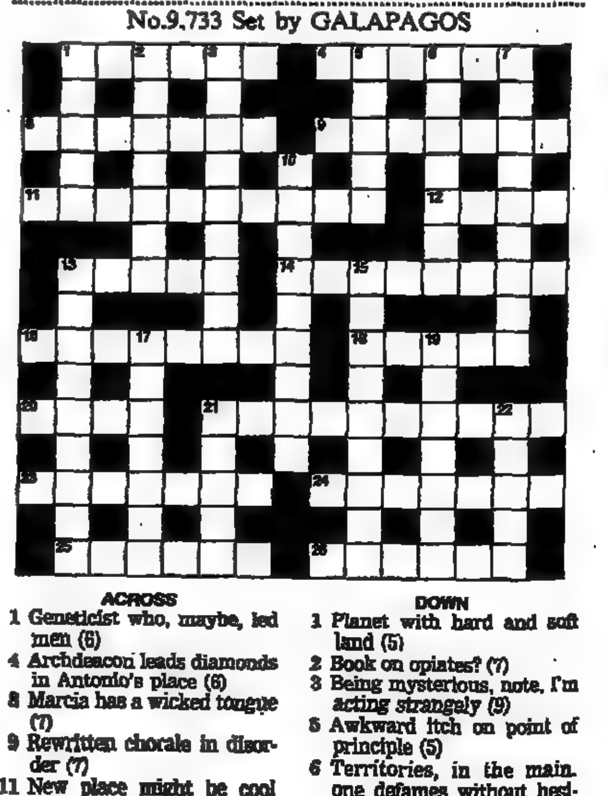
INDICES

[illegible]

JOTTER PAD

CROSSWORD

No.9,733 Set by GALAPAGOS



ACROSS
1 Geneticist who, maybe, led men (6)
4 Archdeacon leads diamonds in Antonio's place (6)
8 Marcia has a wicked tongue (7)
9 Rewritten chorale in disorder (7)
11 New place might be cool (10)
12 Divine street in which to set up home (4)
13 Property out east has last occupant (5)
14 Swimmer in Raphael's work (4,4)
16 Statesman in a cream rig out (8)
18 Horrible scars, to be indelicate (5)
20 Fruit juice is not an option (4)
21 Truants are unruly in McDonald's, say (10)
23 Awful chore is beyond the call of duty (7)
24 Suffer disturbing noise after a recording's completion (7)
25 Relative on the left has lost home (6)
26 Sticky food (6)

DOWN
1 Planet with hard and soft land (5)
2 Book on opiates? (7)
3 Being mysterious, note, I'm acting strangely (9)
5 Awkward itch on point of principle (5)
6 Territories, in the main, one defames without hesitation (7)
7 Strange ancestors missing nothing about posh old people (9)
10 Irritation in chest is uncomfortable (9)
13 Members surrounding our Queen, they provide protection (9)
15 Figure in confusion after break, we hear (9)
17 Royal deeds rule out second helpings (7)
19 Order soldiers to climb mountains (7)
21 Old city rejected revolutionary gathering (5)
22 Get rejection out of the way, it's unpleasant (5)

Solution to Saturday's prize puzzle on Saturday July 25.
Solution to yesterday's prize puzzle on Monday July 27.

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

Jupiter Tyndall World Umbrella Fund Ltd

Newport Investment Management

Orbis Fund Limited

BERMUDA (REGULATED)(**)

Bermuda Intl Asset Mgmt Ltd

Frandington Investment Mgmt (Bermuda) Ltd

Integral Bond Arbitrage Fund Limited

McKinley Offshore Management Ltd

R.C.L. Investments Limited

Orbis Investment Management Ltd

Pictet Smith & Co

Stanford Investment Funds

GUERNSEY (FSA RECOGNISED)

Dresdner RCM Global Investors (Guernsey) Ltd

Gartmore Fleming Fund Mngrs (Guernsey) Ltd

Lazard Fund Managers (C.I.) Ltd

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

PO Box 246, St Peter Port, Guernsey 01481 723021

Global Funds

Sarasin Funds Mngmt (Guernsey) Ltd

PO Box 240 St Peter Port, Guernsey 01481 723021

Schroder Investment Mngmt (Guernsey) Ltd

PO Box 255, St Peter Port, Guernsey 01481 710851

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

BT Fund Managers (Ireland) Ltd (u)

BT Investment Funds

Investor Units

	Selling Price	Buying Price	+ or -	Yield Gr's
Global Bond Inc	$11.22	11.87	–	–
Global Bond Acc	$12.28	12.88	–	–
Managed Dollar Inv		$1.00	–	5.23

Bank of Cyprus Group

1 Harbourmaster Place, IFSC Dublin 1 353 18700300

BOC International Fund Management Ltd

	Selling Price	Buying Price	+ or -	Yield Gr's
BOC Global Equity (u)		1.8216	–	–

Baring International Fund Managers (Ireland) Ltd

IFSC Hse, Custom Hse Docks Dublin 0171-628 6000

Lazard Investment Funds Ltd - Contd.

Swiss Life Investment Fund – Proteus (u)

IFSC Hse, Custom Hse Dock, Dublin 1

Tilney (Ireland) Ltd

IRELAND (REGULATED)(**)

ABN AMRO Global Liquidity Funds Plc (u)

Baring Mutual (Ireland) Ltd

Formosa High Tech Fund

Frandington Investment Mgmt (Ireland) Ltd

Frank Russell Investments (Ireland) Ltd

Frank Russell Investments - Contd.

Kim Europe Worldwide Fund

Korea Active

Morgan Grenfell Cash & Money Market Plc

The Wanger Investment Company PLC

ISLE OF MAN (FSA RECOGNISED)

Alliance & Leicester Intl Fd Mngrs Ltd

Ashburton Global Funds Ltd

Bank of Ireland Asset Management (IOM) Ltd

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

ABSA Offshore Fund Managers (Jersey) Ltd

AIB Govett Management (Jersey) Limited

LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds (u)

India cuts import duty on edible oils

SWORD

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Bank Von Ernst & Cie AG

Barclays Diversified Portfolio (z)

Barclays Inv Funds (Luxembourg)

GT Global

HSBC Investment Funds Luxembourg SA (u)

Henderson Management SA (u)

Morgan Stanley Sicav - Contd.

ACM Offshore Funds - Contd.

The Dragon Fund Sicav

Merrill Lynch Asset Management - Contd.

UBS AG - Contd.

Generali International Limited

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

هكذا من الاصل

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	†N	550	—	640	414	1,319	4.5	13.4
Bulmer (HP)		350	—	485½	295	2	5.5	ф
Burn Stewart	†	14	—	[illegible]	12½	49	15.2	-
Diageo	♣	[illegible]	-6	*779	432	3,979	3.0	33.3
Glenmorangie A		[illegible]	-4	[illegible]	755	-	2.1	20.2
B		[illegible]	[illegible]	1090	[illegible]	-	0.9	43.7
Highland	†	[illegible]	-½	232	258	7	4.0	13.0
5¾pc Cv Sb Bd		98	—	99½	85½	-	6.0	-
Kirin Y		[illegible]	-3½	592	416½	-	1.0	-
Matthew Clark	♣	198	-4½	299	157	197	8.6	7.4
Merrydown		48	+1½	74½	37½	-	-	ф
Seagram C$		£24½	-¼	£28¼	£18½	-	1.1	-

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Continued

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

HOUSEHOLD GOODS & TEXT - Continued

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

هكذا من الأصل

هكذا من الأصل.

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these stocks are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- Figures or report awaited.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

FT Company Focus / Focus Plus

Please note that FT Company Focus/Focus Plus reports ceased to be available as from May 4th 1998. However ShareFinder company reports, incorporating current and historic financial information, key performance data and concensus recommendations, may still be purchased by calling 0870 601 4600.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request. Call 0171 873 4378 for more information on FT Cityline.

The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Footsie regains lost ground after slow start

MARKET REPORT

By Philip Coggan, Markets Editor

A favourable international background allowed the London stock market to regain some of the ground lost on Friday, as domestic news took a back seat to events in Japan and Russia.

The resignation of the Japanese prime minister, while treated with some caution in Asia, prompted widespread relief in Europe, on the assumption that a new government would be more committed to reform. Several continental bourses reached *new highs.*

The FTSE 100 index slipped slightly in early trading, hitting a low of 5,926.4, down 3.3. But it quickly joined in the European rally, reaching the day's high of 5,972.6, up 42.9, around lunchtime and ending 28.5 points higher at 5,958.2.

The blue chips led the way. The FTSE 250 index managed a more modest 9.2 increase to 5,638 but the SmallCap index again weakened, falling 2.3 to 2,576.6.

Gilts lost about a third of a point as the conclusion of a deal between the International Monetary Fund and Russia reduced investors' desire for "safe haven" bonds and increased their enthusiasm for equities.

The equity market highlight was the debut of Coca-Cola Beverages, which moved to a healthy premium and was responsible for more than a quarter of the *day's volume.*

Total turnover was 766.3m shares by the 5pm count, of which 64 per cent was in non-Footsie stocks. A glitch on Topic distorted the closing 6pm figure.

The latest Merrill Lynch/Gallup survey of UK fund managers found that they have turned more pessimistic about the domestic equity market, with sellers outnumbering buyers by 11 percentage points. They remain heavy buyers of gilts, with buyers predominating by 26 points.

However, the recent bearish tone in the market has *not dismayed the more bull*ish analysts. The strategy team at Credit Suisse First Boston has cut its top-down earnings forecast from 7 per cent to 4 per cent for 1998. But CSFB is retaining its year-end Footsie *forecast* of 6,600.

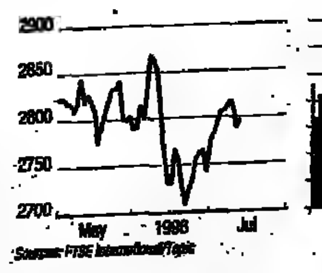
"The year of strongest earnings growth for the equity earnings growth in the 1990s turned out to be the year of the worst performance – *1994,*" *the invest*ment bank points out.

"Second, the correlation *between annual movements* in equity yields and bond yields has remained close to 70 per cent through the 1990s. Our low bond yield can still point to upside for the equity market without extending the valuation arithmetic too far."

Another group to take an *optimistic view is Lehman* Brothers, which is retaining its 6,400 year-end target and has pencilled in 6,800 for mid-1999.

"We think short rates have now peaked," says Ian Scott, *the UK strategist, adding* that "there is already a significant degree of protection built into valuations. On the basis of our earnings yield gap model, the market is around 15 per cent below fair value (given unchanged bond yields and no change to current consensus earnings estimates). *Put it another* way, the market is discounting a 15 per cent reduction in forward earnings estimates."

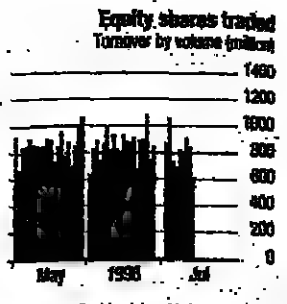
FTSE All-Share index



Source: FTSE International/Topic

Equity shares traded

Turnover by volume (million)



Indices and ratios

FTSE 100	5958.2	+28.5
FTSE 250	5638.0	+9.2
FTSE 350	2874.0	+12.8
FTSE All-Share	2798.41	+10.93
FTSE All-Share yield	2.81	2.82
FT 30	3904.9	+8.8
FTSE Non-Fins p/e	23.33	23.28
FTSE 100 Fut Sep	5995.0	-2.0
10 yr Gilt yield	5.81	5.77
Long gilt/equity yld ratio	2.02	2.02

Best performing sectors

1	Water	+2.2
2	Telecoms	+2.1
3	Food Producers	+1.5
4	Banks: Retail	+1.4
5	Gas Distribution	+0.9

Worst performing sectors

1	Oil: Integrated	-1.5
2	Resources	-1.2
3	Electronic & Elec	-0.9
4	Other Financial	-0.8
5	Alcoholic Beverages	-0.6

Broker boost for banks

COMPANIES REPORT

By Peter John and Joel Kibazo

Bank stocks stood out in a buoyant market as investors took a view ahead of a reporting season that is expected to pinpoint the state of UK plc.

Over the next three weeks, 12 big Footsie companies will publish their results. Predominant are the big high street lenders and mortgage banks. Their figures, says BT Alex Brown, "will highlight the near-term resilience of the bank sector's core franchise, but are unlikely to reverse the underperformance of the last six months".

In essence, brokers are positioning themselves for a downturn. Credit Lyonnais, for example, likes the mortgage lenders and says they will be less vulnerable to increased bad debt provisions than the high street lenders.

Alliance & Leicester, also supported by speculation that it is keen to tie the knot with Woolwich, was the best Footsie performer with a rise of 31½ to 842¼p. Woolwich was also very strong, gaining 11 to 331p.

Abbey National gained 27 to £10.77 as Lyonnais increased its recommendation from "hold" to "buy", emphasising the bank's stable earnings and potential for returning cash to shareholders.

Coca-Cola Beverages fizzed to a healthy premium as the new bottler for eastern and central Europe made its market debut yesterday.

About 13 per cent of the company's equity was made available to the market at 160p and dealers reported brisk early trade as institutions moved to make up their weightings in the new FTSE 250 constituent.

The shares hit a peak of around 190p minutes after the start of trading, before easing to end the day at 169p. Turnover of 210m made it by far the busiest stock and it accounted for more than a third of the day's total volume of 766m.

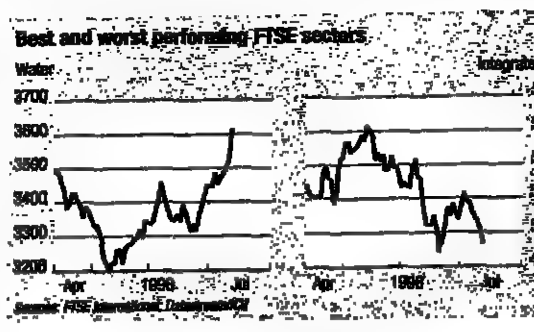
SBC Warburg Dillon Read and Credit Suisse First Boston were joint lead managers to the issue.

Fears that the stock had been overpriced were banished by yesterday's sparkling debut.

Analyst Sally Jones, at Credit Lyonnais Securities, said: "It is no secret that there were some concerns about the high price of this issue but in the end people decided to take a chance on what is after all a company with a world-class brand name."

ED&F Man, the international financial services and agricultural products group which last week announced an acquisition, was unwanted yesterday. The *stock fell 19 to 352½p and* was the worst performer in the FTSE 250.

Best and worst performing FTSE sectors



Source: FTSE International/Datastream/ICV

Unilever up

Unilever remained close to *the top of the FTSE 100 best* performers' list for most of the day. A broker's recommendation and investors seeking a safe haven helped the stock.

Shares in the Anglo-Dutch *food* and *consumer products* giant jumped 22 to 661½p after BT Alex Brown was said to have reiterated its "buy" stance, suggesting recent concerns over valuations had been overdone.

Last week, SBC Warburg Dillon Read downgraded its recommendation on the stock to "hold", while analysts at Merrill Lynch were reported to have downgraded earnings estimates *for the stock on the back of* currency considerations earlier in the month.

Water stocks bubbled up as brokers stressed their defensive qualities.

Panmure Gordon was recommending Wessex and Yorkshire with a target of 580p for Wessex, representing 26 per cent upside, and 560p for Yorkshire, representing 21 per cent upside. Wessex gained 16½ to 474p and Yorkshire 19 to 481½p.

Elsewhere, Charterhouse Tilney was putting its weight behind United Utilities with a price target north of £10. The broker believes United will be helped by a more encouraging regulatory review than previously feared, as well as its exposure to telecoms. The shares ended 22½ higher at 942p.

Thames, which opened a waterworks in China last week, gained 34 to £11.26.

In the electricity sector, PowerGen dwindled 8 to 854p as the market responded to a weekend press story that the deal with Houston Industries was unlikely to go ahead.

Shares in pub operator JD Wetherspoon eased 2½ to 284p as analysts downgraded profit expectations following news of dull trading.

The company was said to have admitted that the absence of TV screens in its pubs during the World Cup cut the number of drinkers in its venues by around 10 per cent.

Panmure Gordon was among those reported to have cut its forecasts for the year to the end of July.

The broker is believed to have trimmed its estimate by £3m to £20m and reduced the following year's figure by £4m to £28m, and also downgraded its recommendation to "hold" from "buy".

Building and construction company Ashtead Group was the best performer among the FTSE 250 after reporting improved figures and upbeat comments on current trading.

Full year profits rose from £28.3m to £37.3m. Merrill Lynch was among brokers urging investors to buy the shares.

Glynwed cheers

News that Glynwed International is expanding its food service equipment operations with the acquisition of Williams Refrigeration cheered the market. The shares gained 5 to 254¼p.

Glynwed said it was paying £44.3m in cash and loan notes for the food service refrigeration manufacturer based in Norfolk.

Shares in metals group Johnson Matthey hardened 2½ to 555p ahead of today's annual meeting.

Dealers said they expected the meeting to be cautious with news of weakening demand from some of the group's biggest customers.

Reed International, recommended in the weekend press in the wake of positive broker comment last week, advanced 14½ to 602½p.

BAT Industries improved 16 to 660p ahead of interims later this month.

Zeneca, at £24.59, recouped 58 of last Friday's fall that followed the negative studies on the Tamoxifen treatment for breast cancer.

Shield Diagnostics lost another 40 to 510p on further reaction to last Friday's cautious statement and ahead of presentations by the company to analysts today.

FT 30 INDEX

	Jul 13	Jul 10	Jul 9	Jul 8	Jul 7	Yr ago	*High	*Low
FT 30	3904.9	3896.9	3904.5	3925.3	3932.8	3080.1	3980.3	3093.2
Ord. div. yield	2.79	2.80	2.79	2.78	2.83	3.55	4.22	2.79
P/E ratio net	24.00	23.91	23.99	24.12	24.30	18.88	25.41	15.80
P/E ratio nil	23.90	23.81	23.89	24.02	[illegible]	18.49	26.19	15.71

FT 30 since compilation: high 3980.3 11/05/98; low 49.4 26/06/40. Base Date: 1/7/35

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3899.8	3905.8	3912.2	3908.8	3901.2	3907.1	3910.8	3897.7	3900.7	3918.7	3893.2

STOCK MARKET TRADING DATA

	Jul 13	Jul 10	Jul 9	Jul 8	Jul 7	Yr ago
SEAQ bargains	57,951	55,842	64,974	61,790	66,789	61,594
Equity turnover (£m)†	-	3057.0	3282.7	[illegible]	2876.7	2044.7
Equity bargains†	-	47,037	47,038	40,941	53,094	43,647
Shares traded (m)†	-	785.9	801.3	823.4	702.2	634.4
Total market bargains‡	-	-	84,466	83,005	86,981	-
Total turnover (£m)‡	-	-	4516.3	4748.4	4182.2	-
Total shs traded (m)‡	[illegible]	-	1055.9	1061.8	988.4	-
Tradepoint turnover (£m)	13.3	16.7	17.7	27.7	29.2	12.3
Tradepoint shrs traded(m)	4.8	6.5	8.2	9.7	9.7	1.9

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	662	Total Highs	64	Total contracts	28,465
Total Falls	742	Total Lows	66	Calls	15,798
Same	1,555			Puts	12,667

Jul 13 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	6005.0	5995.0	[illegible]	6026.0	5985.0	10837	188154
Dec	6104.0	6089.0	-1.5	6104.0	6094.0	15	3921
Mar		6160.5	-1.5			0	970

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		5707.0	+12.0			0	5884

■ FTSE 100 INDEX OPTION (LIFFE) (*5854) £10 per full index point

Jul	[illegible]											
Aug	[illegible]											
Sep	[illegible]											
Oct	[illegible]											
Dec†	[illegible]											

Calls 1,120 Puts 1,848

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

Jul	[illegible]											
Aug	[illegible]											
Sep	[illegible]											
Dec	[illegible]											
Mar†	[illegible]											

Calls 7,597 Puts 4,952 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]											
§	F.P.	0.90	40	7½	†London Town Wts	40	-	-	-	-	-
§	F.P.	11.3	13½	11½	†Murray Fund	11½	-	-	-	-	-
§	F.P.	29.5	210½	162½	†Policy Master	208	-7	-	-	-	46.7
-	F.P.	99.5	167½	135½	Questcea	137½	-3	-	-	-	23.2
§	F.P.	30.1	97½	82½	†Sports & Outdoor	97½		W-	-	-	37.1
-	F.P.	14.1	[illegible]	117½	†Rockstone Grp	144½		L1.0	6.9	0.9	20.9
*	F.P.	14.7	102½	92½	†Tolander Tech	99½		-	-	-	-
-	F.P.	-	35½	33½	Williams Pf 8	34		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Jul 10	% chg on day	Jul 9	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (27)	970.38	-1.0	[illegible]	1329.34	2.37	-	1036.45	[illegible]
■ Regional Indices								
Africa (10)	1042.41	+1.2	1030.10	[illegible]	4.43	40.35	[illegible]	914.21
Australasia (7)	[illegible]	-3.9	1161.99	1385.23	2.84	7.34	1609.85	[illegible]
North America (10)	929.59	-1.5	944.02	1314.57	1.32	39.87	1574.16	864.88

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jul 13	Day's chge%	Jul 10	Jul 9	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5958.2	+0.5	5929.7	5969.7	4857.4	2.75	2.32	2.09	22.38	82.02	2609.84
FTSE 250	5638.0	+0.2	5628.8	5633.3	4423.8	2.95	2.49	1.98	21.85	82.80	2423.44
FTSE 250 ex Inv Tr	5684.3	+0.2	5675.2	5677.7	4410.1	3.04	[illegible]	2.02	20.32	85.85	[illegible]
FTSE 350	2874.0	+0.4	2862.0	2878.1	2325.9	2.79	2.36	2.02	22.22	[illegible]	2571.96
FTSE 350 ex Inv Tr	2878.4	+0.4	2866.0	2882.3	2326.6	2.80	2.37	2.09	21.96	40.27	1321.16
FTSE 350 Higher Yield	[illegible]	+0.4	2767.4	2776.8	2284.6	3.61	3.23	1.92	17.14	51.80	2125.89
FTSE 350 Lower Yield	2972.8	+0.5	2958.9	2990.9	2392.5	1.95	1.68	2.17	[illegible]	30.69	2160.82
FTSE SmallCap	2576.62	-0.1	2578.91	2586.79	2205.43	3.09	2.60	[illegible]	21.49	35.21	2246.28
FTSE SmallCap ex Inv Tr	2580.37	-0.2	2584.61	2571.64	2170.73	3.31	2.88	1.99	18.11	37.08	2255.38
FTSE All-Share	2798.41	+0.4	2787.48	2802.80	2272.48	2.81	2.36	2.01	22.18	38.89	2541.58
FTSE All-Share ex Inv Tr	2805.08	+0.4	2793.89	2809.33	2272.96	2.83	2.38	2.02	21.81	39.29	1310.72

■ FTSE Actuaries Industry Sectors

	Jul 13	Day's chge%	Jul 10	Jul 9	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4380.60	-1.2	4433.00	4478.82	4627.21	3.47	3.00	1.72	20.94	74.43	[illegible]
12 Extractive Industries(6)	2756.31	+0.5	2743.95	2770.14	4227.03	5.08	4.65	2.06	12.01	76.82	869.94
15 Oil, Integrated(4)	4939.06	-1.5	5013.57	5065.72	4850.63	3.41	2.92	1.94	22.31	79.87	2337.08
18 Oil Exploration & Prod(12)	2979.12	-0.1	2981.02	3011.12	3785.47	1.91	[illegible]	[illegible]	33.05	33.41	[illegible]
20 GEN INDUSTRIALS(217)	2142.33	+0.2	2138.98	2150.28	1863.84	3.38	2.98	2.25	16.79	34.82	1261.24
21 Construction(34)	1519.35	+0.1	1518.45	1513.50	1347.07	3.25	2.64	2.72	14.15	21.62	1357.09
22 Building Matls & Merchs(26)	[illegible]	+0.4	1762.97	1758.44	1762.90	4.16	3.82	2.01	15.00	39.25	968.96
23 Chemicals(24)	2687.42	+0.6	2671.98	2708.68	2595.09	3.50	3.24	1.79	19.96	45.47	[illegible]
24 Diversified Industrials(7)	1377.39	+0.5	1370.05	1373.53	1303.01	4.20	3.91	2.11	14.09	26.73	850.22
25 Electronic & Elect Equip(35)	2835.21	-0.9	2860.05	2845.81	2053.41	2.87	2.17	1.87	25.06	[illegible]	1563.02
26 Engineering(44)	2763.24	+0.3	2755.25	2794.91	2418.71	3.43	3.08	[illegible]	14.65	[illegible]	[illegible]
27 Engineering, Vehicles(10)	4098.25	+0.6	4013.18	4012.25	2758.45	2.21	2.02	3.35	16.92	43.88	2226.40
28 Paper, Pckg & Printing(26)	2220.38	-0.2	2225.54	2221.73	1890.23	4.02	3.60	2.43	12.70	42.31	[illegible]
30 CONSUMER GOODS(91)	5966.76	+0.6	5928.47	5975.79	4814.82	2.49	2.18	1.80	27.81	77.25	2362.37
[illegible]											
80 INVESTMENT TRUSTS(114)	3954.34	[illegible]	3950.05	3967.74	3443.80	2.05	1.67	[illegible]	51.40	40.55	1443.45
89 FTSE All-Share(869)	2798.41	+0.4	2787.48	2802.80	2272.48	2.81	2.36	2.01	22.18	38.89	2541.58
105 FTSE All-Share ex Inv Tr(739)	2805.08	+0.4	2793.89	2809.33	2272.96	2.83	2.38	2.02	21.81	39.29	1310.72
Information Technology	1847.02	+0.2	1842.96	1857.88	-	0.47	0.37	3.75	71.27	3.79	[illegible]
FTSE Fledgling	1413.14	—	1413.68	1416.80	1252.51	3.12	2.53	1.41	28.28	19.70	1570.00
FTSE Fledgling ex Inv Tr	1435.89	-0.1	1436.90	1439.14	1252.54	3.45	2.80	[illegible]	24.47	21.94	1601.79
FTSE AIM	1097.4	—	[illegible]	1090.2	1053.7	[illegible]	0.93	0.09	80.00†	6.47	[illegible]

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	-	5944.4	5957.8	5961.0	5953.0	5960.0	5967.7	5948.1	5953.6	5972.6	5926.4
FTSE 250	-	5630.5	5628.3	5631.6	5632.4	5634.5	5635.7	5638.9	5640.2	5641.8	5627.7
FTSE 350	-	2867.9	2873.0	2874.6	2871.5	2874.4	2877.6	2870.2	2872.4	2879.5	2860.8
FTSE SmallCap	2578.24	2577.89	2578.08	2578.47	2578.44	2578.66	2577.90	2576.64	2576.77	2578.71	2576.38
FTSE All-Share	-	2792.85	2797.51	2796.99	2796.17	2798.87	2801.72	2794.96	2798.94	2803.48	2786.34

Time of FTSE 100 Day's high: 13:41:00 Day's low: 8:47:00. FTSE 100 1998 High: 6105.8 (06/04/98) Low: 5088.7 (12/01/98)
Time of FTSE All-Share Day's high: 13:41:00 Day's low: 8:47:00. FTSE All-Share 1998 High: 2868.10 (08/05/98) Low: 2389.32 (12/01/98)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	680	591	-7
AMVESCAP	1,100	675½	-4½
ASDA Group	4,700	206½	-¼
Abbey National	1,800	1077	+27
Alliance & Leicester	2,800	842¼	+31½
Allied Domecq	[illegible]	580	
Assoc. Brit. Foods	670	[illegible]	-6½
[illegible]			

Based on trading volume for the FTSE 100 constituent companies and selected others. † Indicates a FTSE 100 index constituent. Volumes are rounded.

هكذا من الاصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 13 / Sch)

BELGIUM/LUXEMBOURG (Jul 13 / Frs)

CZECH REP (Jul 13 / Koruna)

DENMARK (Jul 13 / Kr)

FINLAND (Jul 13 / Mkk)

FRANCE (Jul 10 / Frs)

GERMANY (Jul 13 / Dm.)

GREECE (Jul 12 / Drachma)

ITALY (Jul 13 / Lire)

NETHERLANDS (Jul 13 / Fls.)

NORWAY (Jul 13 / Krone)

POLAND (Jul 13 / Zloty)

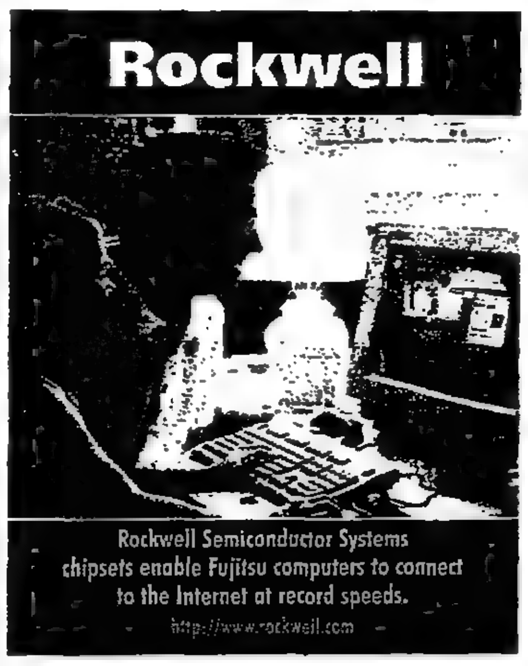
PORTUGAL (Jul 13 / Escudo)

SPAIN (Jul 13 / Pts.)

SWEDEN (Jul 13 / Kronor)

SWITZERLAND (Jul 13 / Frs.)

TURKEY (Jul 13 / TK Lira)



PACIFIC

JAPAN (Jul 13 / Yen)

HONG KONG (Jul 13 / H.K.$)

INDONESIA (Jul 13 / Rupiah)

MALAYSIA (Jul 13 / MYR)

NEW ZEALAND (Jul 13 / NZ $)

SINGAPORE (Jul 13 / S$)

SOUTH KOREA (Jul 13 / Won)

TAIWAN (Jul 13 / TW $)

THAILAND (Jul 13 / Baht)

AUSTRALIA (Jul 13 / Aust$)

AFRICA

SOUTH AFRICA (Jul 13 / Rand)

AMERICAS

CANADA

TORONTO (Jul 13 / Can $)
4 pm close

MONTREAL (Jul 13 / Can $)
4 pm close

MEXICO (Jul 13 / Peso)
12:30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JULY 10 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY JULY 9 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	194.72	-1.1	175.85	173.52	184.07	210.68	-1.5	3.76	197.00	179.15	175.81	187.34	213.90	240.80	173.27	236.14
Austria (23)	231.45	-0.2	210.21	206.25	218.80	218.63	-0.8	1.55	231.92	210.91	207.19	220.55	220.39	253.73	181.08	201.28
Belgium (22)	378.31	0.1	343.59	337.12	357.62	349.86	-0.5	1.98	377.83	343.61	337.40	359.31	351.46	379.59	234.33	257.31
Brazil (26)	224.58	-0.1	203.97	200.12	212.29	479.85	-0.2	2.13	224.86	204.48	200.79	215.83	480.72	322.44	184.94	322.44
Canada (120)	232.75	-0.6	211.39	207.40	220.02	249.13	-0.3	1.53	234.22	213.00	209.15	222.74	249.87	248.78	199.10	215.82
Denmark (34)	513.87	0.2	466.71	457.92	485.77	483.91	-0.5	1.34	512.71	466.27	457.84	487.58	486.19	521.81	375.32	406.37
Finland (28)	459.16	-0.7	417.02	409.16	434.04	532.62	-1.3	1.72	462.21	420.34	412.75	439.55	539.38	467.28	267.59	301.43
France (79)	328.29	-0.8	298.25	292.63	310.43	313.97	-1.5	1.88	331.44	301.40	295.97	315.19	318.76	325.75	217.48	234.91
Germany (58)	309.99	0.6	281.45	276.15	292.94	292.94	0.0	1.14	307.98	280.06	275.00	292.86	292.86	309.91	204.89	226.52
Greece (37)	307.44	0.5	279.23	273.97	290.53	666.21	-0.4	1.41	303.59	278.28	273.25	290.98	668.91	307.94	280.24	–
Hong Kong, China (66)	240.42	-2.3	218.35	214.24	227.27	239.19	-2.3	6.55	246.11	223.81	219.77	234.04	244.85	560.03	210.70	518.08
Indonesia (27)	29.75	-2.4	27.02	26.51	28.13	279.27	-2.8	2.42	30.47	27.71	27.21	28.97	287.38	247.82	25.58	247.82
Ireland (16)	547.23	0.1	497.05	487.69	517.34	557.30	-0.5	1.74	546.84	497.38	488.31	520.03	560.89	560.44	359.60	369.85
Italy (54)	169.97	0.3	154.37	151.46	160.67	227.53	-0.2	1.30	169.44	154.08	151.31	161.12	228.11	177.15	95.46	99.04
Japan (480)	91.54	-1.6	83.14	81.57	86.53	81.57	-1.8	0.87	92.98	84.58	83.83	88.42	83.03	138.03	83.04	136.11
Malaysia (106)	108.37	-1.2	98.42	96.57	102.44	177.91	-3.8	3.54	113.10	102.85	100.99	107.55	184.90	465.85	108.37	465.33
Mexico (24)	1449.37	0.6	1316.36	1291.56	1370.10	14193.02	0.8	1.94	1440.51	1310.02	1286.35	1369.89	14076.35	1931.98	1278.19	1736.93
Netherlands (20)	525.78	0.0	477.53	468.53	497.02	491.87	-0.6	1.91	526.00	478.35	469.71	500.21	495.05	532.74	385.56	421.20
New Zealand (14)	62.38	-1.7	56.66	55.59	58.97	64.40	-1.9	4.73	63.48	57.73	56.69	60.37	65.64	95.87	56.39	94.63
Norway (38)	304.41	1.0	276.48	271.27	287.76	319.70	0.3	1.96	301.31	274.01	260.66	286.54	317.75	374.84	281.62	321.93
Philippines (22)	74.58	-1.4	67.74	66.46	70.50	155.74	-1.6	1.10	75.82	68.77	67.53	71.91	158.28	153.54	57.54	149.96
Portugal (17)	203.74	0.6	257.70	252.85	268.22	361.23	0.0	0.97	261.99	238.45	251.81	268.17	361.08	298.39	261.25	–
Singapore (42)	145.27	-2.3	131.94	129.46	137.33	115.58	-1.6	2.62	148.83	135.17	132.72	141.34	117.64	330.51	133.81	386.40
South Africa (49)	214.56	-2.7	194.88	191.21	202.84	301.80	-0.5	2.98	220.53	200.55	196.93	209.71	303.18	361.56	213.50	355.25
Spain (31)	398.64	0.7	362.06	355.23	376.84	466.09	0.1	1.63	398.04	360.16	353.66	376.62	465.65	481.61	236.28	271.50
Sweden (49)	587.64	-0.4	542.60	532.57	564.96	713.77	-0.8	1.64	600.14	545.78	535.92	570.72	719.59	615.21	439.98	504.13
Switzerland (29)	416.38	0.1	378.99	372.63	395.50	389.59	-0.2	1.84	418.09	380.21	373.34	397.59	389.40	422.71	285.85	328.03
Thailand (38)	13.14	-2.5	11.94	11.71	12.42	21.40	-2.5	12.44	13.49	12.26	12.04	12.82	21.95	66.78	11.66	63.67
United Kingdom (203)	379.72	-0.5	344.87	338.37	358.95	344.87	-0.6	2.89	381.65	347.07	340.80	362.93	347.07	401.84	303.41	315.04
USA (629)	476.74	0.5	432.99	424.83	450.66	476.74	0.5	1.38	474.51	431.53	423.73	451.25	474.51	477.47	358.31	370.07
Americas (303)	428.97	0.4	389.61	382.27	405.51	363.02	0.4	1.38	427.18	388.40	381.47	406.24	361.45	429.78	326.79	339.21
Europe (737)	366.30	-0.1	332.68	326.41	346.26	352.22	-0.5	1.00	386.81	333.58	327.55	348.32	354.15	376.05	265.25	280.31
Eurobloc (348)	105.97	0.0	100.18	113.34	109.32	109.33	-0.5	1.56	106.93	109.28	113.59	109.92	108.93	107.76	99.54	–
Nordic (149)	525.07	-0.2	476.88	467.90	496.35	546.56	-0.8	1.63	526.40	478.72	470.87	500.59	550.73	536.56	388.51	428.70
Pacific Basin (867)	97.23	-1.6	88.31	86.65	91.91	88.95	-1.8	1.72	98.83	89.88	88.26	93.99	88.55	155.40	88.45	153.77
Euro-Pacific (1604)	209.38	-0.5	190.16	186.58	197.93	107.10	-0.8	1.87	210.52	191.45	187.99	200.20	188.78	216.04	172.03	206.80
North America (749)	353.90	0.4	418.51	410.63	435.60	461.29	0.4	1.37	458.86	417.29	408.75	436.36	459.29	461.96	349.06	360.55
Europe Ex. UK (534)	346.58	0.0	314.77	308.84	327.62	344.66	-0.5	1.48	346.47	315.08	309.29	329.48	346.40	349.27	236.79	254.75
Europe Ex. Eurobloc (389)	99.02	-0.3	101.06	104.92	101.19	101.48	-0.5	2.32	99.35	101.53	105.48	102.13	102.04	100.97	94.53	–
Europe Ex. UK Ex. Eurobloc (186)	103.94	0.0	106.09	110.13	106.22	107.42	-0.4	1.27	103.94	105.23	110.36	106.96	107.82	104.86	95.88	–
Pacific Ex. Japan (387)	156.05	-1.9	141.73	139.06	147.51	164.04	-2.0	4.75	159.08	144.67	142.06	151.25	167.42	316.59	142.99	307.38
World Ex. Eurobloc (2100)	100.43	0.0	91.22	89.50	94.04	102.06	-0.1	1.61	103.47	91.37	89.72	95.54	102.13	101.30	93.25	–
World Ex. US (1819)	211.49	-0.6	192.09	180.47	190.83	193.49	-0.8	1.88	212.67	193.41	188.91	202.25	195.12	220.18	175.30	210.67
World Ex. UK (2245)	289.19	0.0	262.65	257.70	273.37	268.35	-0.1	1.45	289.08	262.90	258.15	274.91	269.52	291.38	234.24	256.27
World Ex. Japan (1968)	398.64	0.1	362.24	355.41	377.02	385.80	0.0	1.67	390.27	382.19	355.55	378.74	395.73	401.21	300.33	325.46
The World Index (2448)	296.94	0.0	269.69	264.61	280.70	275.40	-0.1	1.58	297.09	270.89	265.21	282.44	275.83	299.43	241.30	261.34

Emerging markets: IFC Investable indices

Dollar terms

4 pm close July 13

NEW YORK STOCK EXCHANGE PRICES

Advertisement

INSECTSe

INSECTSe are published by European Benchmarks nv-sa (EuroBench), an independent index publishing company. INSECTSe are the first pan-European INdices on SECTorS with correlation selected constituents taken from the TOP 500 European companies by market capitalisation. Information about EuroBench and the Insectse can be found on the Internet at HTTP://WWW.EUROBENCH.COM and HTTP://WWW.EURO-INSECTS.COM. EuroBench has offices in Brussels (Tel: +32.2.506.94.60) and in London (Tel: +44.171.338.78.00)

Closing values at 16.00 CET. E-Mail: info@eurobench.com

European Sector Indices		CURRENT 13/7/98	PREVIOUS 10/7/98	NET CHANGE	% CHANGE
Financials	USD	2282.60	2257.05	+25.55	+1.13
(IN-FIN)	DEM	2886.45	2870.09	+16.36	+0.57
Non-durable goods	USD	EC1469.78	1470.60	-0.82	-0.04
(IN-GOODS)	DEM	EC2111.37	2124.35	-12.84	-0.60
Oils	USD	1494.10	1495.58	-1.48	-0.08
(IN-OIL)	DEM	1889.36	1901.80	-12.44	-0.65
Pharma-chemicals	USD	1453.94	1437.67	+16.39	+1.17
(IN-PHARMA)	DEM	2094.04	2082.45	+11.59	+0.55

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1, 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Stock types as noted.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

‡ Dealings suspended.

♣ FT Free Annual Reports Club

You can obtain the current annual reports and if available quarterly reports of any companies on the US exchanges with a ♣ symbol. To order reports ring (International Access) 1-804-32 0-8097 or give the names of the companies whose reports you want and fax your request to (International Access) 1-804-320-8135. Reports will be sent the next working day, subject to availability. You can also order online at http:// www.icbinc.com/cgi-bin/ft.

هكذا من الأصل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Jul 10	Jul 9	Jul 8	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9105.74	9089.78	9174.97	9211.84 (13/5)	7580.42 (9/1)	9211.84 (13/5/98)	41.22 (8/7/32)
Home Bonds	105.31	105.13	105.19	105.46 (15/1)	104.42 (11/5)	105.46 (15/1/98)	54.99 (1/10/81)
Transport	3557.88	3575.80	3566.12	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	291.11	290.72	292.65	295.40 (8/7)	262.66 (9/1)	295.40 (8/7/98)	10.53 (8/7/32)

DJ Ind. Day's high 9135.80 (9174.97) Low 9029.79 (9065.81) (Theoretical)
Day's high 9194.82 (9217.07) Low 8978.23 (9014.30) (Actual)

Standard and Poors	Jul 10	Jul 9	Jul 8	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1164.33	1158.56	1166.38	1166.37 (8/7)	927.69 (9/1)	1166.37 (8/7/98)	4.40 (1/6/32)
Industrials¶	1349.24	1343.78	1352.23	1352.22 (8/7)	1077.40 (9/1)	1352.22 (8/7/98)	3.52 (30/6/32)
Financial¶	145.80	144.36	145.72	145.81 (8/7)	110.65 (9/1)	145.81 (8/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	592.18	590.23	594.35	594.35 (8/7)	487.47 (9/1)	594.35 (8/7/98)	4.64 (25/4/42)
Amex Comp	730.66	727.91	729.65	753.67 (20/4)	646.41 (12/1)	753.67 (22/4/98)	324.30 (16/7/80)
NASDAQ Cmp	1943.04	1939.82	1935.39	1943.04 (10/7)	1503.22 (9/1)	1943.04 (10/7/98)	54.87 (3/10/74)
Russell 2000	458.43	460.00	459.97	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Jul 10	Jul 3	Jun 26	Year ago
Dow Jones Ind. Div. Yield	1.61	1.58	1.60	1.63
	Jul 8	Jul 1	Jun 24	Year ago
S & P Ind. Div. yield	1.26	1.27	1.28	1.55
S & P Ind. P/E ratio	32.41	32.08	31.73	24.91

US DATA

MARKET ACTIVITY

Volume (million)	Jul 10	Jul 9	Jul 8
NYSE	578.080	659.665	607.230
Amex	25.818	[illegible]	24.441
NASDAQ	715.173	849.606	849.650

NYSE	Jul 10	Jul 9	Jul 8
Issues Traded	3,478	3,507	3,526
Rises	1,289	1,231	1,747
Falls	1,588	1,675	1,221
Unchanged	591	601	558
New Highs	118	[illegible]	151
New Lows	105	96	82

NYSE TRADING ACTIVITY

Volume : 578,080,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Compaq	14,025,000	31¼	+⅝
Disney	9,988,200	36¾	+1⅛
Pfizer	7,873,700	118	+2⅞
PhilMor	6,788,800	40⅛	+⅝
MicrnTech	6,371,700	29¾	+⅞
DuPont	6,215,600	67⅞	−2⅛
Kmart	4,738,300	17⅝	−¼
GenElec	[illegible]	93⅞	−⅛
Tandy	4,139,800	89	+⅝
HmeDep	3,941,400	48⅛	+1½

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Dallas Sem	35	+4⅛	+13.6
MYR Gp	15⅞	+1⅛	+7.7
Dollar Gn	[illegible]	+2⅞	+6.7
JonMen	16¾	+⅞	+5.9
Downs			
Sirrom	16⅛	−9¼	−36.4
HmstdR	12⅞	−1⅛	−8.0
SantaJ ADR	29¼	−1⅝	−5.1
Mid Atl M	10⅛	−⅝	−5.8

NASDAQ TRADING ACTIVITY

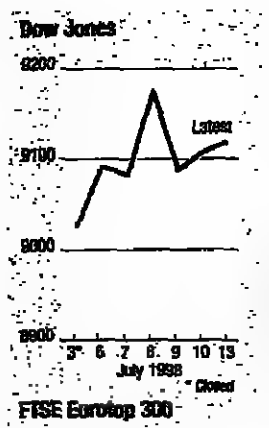
Volume :715,173,000

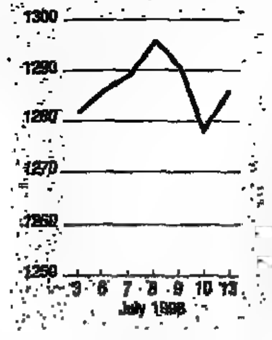
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Egghead	20,785,100	21⅛	+4⅛
DellComp	14,456,300	100⅞	+⅞
Intel	14,299,500	79¾	
Micsft	11,242,400	113⅛	+2⅛
WrldCm	7,481,000	50⅞	
CiscoSys	7,359,500	92⅞	
Yahoo	7,040,800	182¼	−1½
Oracle	6,813,600	25⅛	+¼
ApplMat	6,632,100	29⅛	+½
PETsMRT	6,204,600	6¾	−1⅛

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Egghead	21⅛	+4⅛	+26.1
IFR Sys	20¼	+2⅞	+14.9
STAR Tel	19⅞	+2⅞	+12.3
Rainbow	21½	+2¼	+11.2
Downs			
PetcoAnml	11⅛	−8¼	−42.7
Fastenal	43¾	−7½	−14.6
LeardTr	14½	−2½	−13.1
DecilLog	11¾	−1½	−12.3





JAPAN

	Jul 13	Jul 10	Jul 9	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	16360.39	16090.06	16445.95	17264.34	14664.44	38915.9	85.25

Day's high: 16360.39. Day's low: 15804.35.

TOKYO TRADING ACTIVITY

Volume : [illegible]

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
NpStl	18,432,000	255	
LgTmCr	8,620,000	57	−2
BTokM	7,064,000	1509	+34
Yuasa	6,910,000	417	+27
Sakura	6,388,000	375	+14
Tahiba	5,368,000	543	+8
KawStl	4,796,000	270	+12
SawaBk	4,553,000	1278	+52
SumBak	4,473,000	1406	+46
IshiaS	4,380,000	555	+55

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Toyokn	170	+28	+19.7
NpYkin	108	+13	+13.7
NpSuie	178	+18	+11.4
K'doSh	190	+19	+11.1
AnitsuS	555	+55	+11
NpDnko	180	+17	+10.4
NichCp	182	+16	+9.6
Downs			
KmGumi	95	−8	−7.8

FRANCE

	Jul 13	Jul 10	Jul 9	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	closed	4255.35	4318.16	4339.61	2962.54	4339.91	984.61

Day's high: – . Day's low: – .

PARIS TRADING ACTIVITY

Volume : 373,605,210

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Rhodia	1,495,197	165.3	−6
RhonPA	1,203,983	324.8	−10.4
Usinor	1,087,100	86	−1.95
FrTele	1,056,803	491	−10
Alstom	718,146	197.5	+0.5
Paribas	639,919	641	−3
Alctel	[illegible]	[illegible]	−3
ThmCSF	566,397	231.3	−3.2
EurDis	553,256	11.6	−0.15
Vivndi	530,439	1405	+11

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Imetch	1740	+125	[illegible]
Tattng	4000	[illegible]	+2.9
EpPart	535	+11	+2.1
Ony ED	3475	+69	+2.0
Downs			
Atos	1550	−89	−5.4
[illegible]	747	[illegible]	−4.7
Moulinx	147.5	−7	−4.5
CapGem	925	−42	−4.3

GERMANY

	Jul 13	Jul 10	Jul 9	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	6019.48	5982.42	5996.77	6013.14	4087.28	6013.14	931.18

Day's high: 6056.09. Day's low: 5981.02.

FRANKFURT TRADING ACTIVITY

Volume : (u)

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Siemens	883,389	108	+0.75
[illegible]	649,984	175.5	−3.2
Dt Tel	622,623	55.4	+1.4
[illegible]	602,049	93.4	+1.45
Veba	550,041	112.8	+3.1
Commzbk	531,673	66.8	−0.25
Bayer	482,973	91.6	−0.1
[illegible]	489,244	42.8	+1.8
DresBk	484,974	98.2	+0.9
Lufthn	325,512	53.2	−0.1

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Thyssn	487	+34	+7.5
Degussa	115.4	+4.9	+4.4
Mhelig	42.8	+1.8	+4.4
Porsche	5440	+170	+3.2
Downs			
Strbag	142	−9.6	−6.2
Trikott	58	−3.4	−5.5
SchLub	430.5	−24.5	−5.4
AachMunRr	220	−12	−5.2

UK

	Jul 13	Jul 10	Jul 9	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5958.2	5929.7	5969.7	6105.80	5068.80	6105.8	986.9

Day's high: 5972.8. Day's low: 5920.4

LONDON TRADING ACTIVITY

Volume : 601,700,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Next	24,283,310	491	−13
Compass Grp	14,344,300	621	+8½
BT	10,577,780	781	−1
GEC	9,876,338	543	−5
Tesco	8,305,203	190½	−½
Shell T&T	8,533,770	409	−5½
Brit.Aerospace	8,527,170	473½	+8
Spring Ram	7,650,198	14¾	+2½
Scot&Newcstle	7,634,023	835	+5½
Centrica	6,661,979	104¾	+¾

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Helicon Pb	82½	+19½	+30.9
Spring Ram	14¾	+2½	+20.4
ILP Grp	36½	+5½	+17.7
Prism Lsle	65	+9½	+17.1
Downs			
Langdons Pd	1½	−¼	−16.7
Total Sys	98½	−18	−15.5
West Brom	11000	−1500	−12
SWP Grp	2	−¼	−11.1

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	1167.90	1172.70	+5.20	1177.20	1159.50	94,783	347,198
Dec	1182.00	1186.20	+6.00	1190.00	1172.30	177	14,137
Nikkei 225							
Sep	16400.0	16050.0	−3700	16540.0	16000.0	50,834	210,375
Dec	16350.0	15990.0	−380	16470.0	15950.0	3,100	13,611

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jul	4304.0	4247.5	−100.5	4307.0	4240.0	83,694	160,473
Sep	4326.0	4270.5	−101.5	4354.0	4271.0	1,119	109,304
DAX							
Sep	6030.0	6060.0	+27.0	6092.0	6030.0	14,839	75,947
Dec	6085.0	6111.5	+43.0	6143.0	6085.0	7	2,281

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jul	801.00	808.75	+9.25	809.00	800.50	16,405	110,148
Aug	808.25	811.75	+8.75	811.75	808.25	9,135	18,063
SOFFEX							
Jul	8215.0	8124.9	−45.1	8215.0	8105.0	5,918	24,240
Aug	8215.0	8143.0	−5.80	8220.0	8146.0	1,971	2,853

WORLD MARKETS AT A GLANCE

Country	Index	Jul 13	Jul 10	Jul 9	1998 High	1998 Low	¶ Yield	¶ P/E
Argentina	General	21398.41	21082.29	(c)	23498.47 23/3	18937.49 2/1	3.26	18
Shares rose on foreign buying.								
Australia	All Ordinaries	2718.8	2747.8	2768.9	2861.49 18/4	2524.90 16/6	3.23	18.9
	All Mining	592.1	589.9	602.1	713.10 23/4	548.80 16/6		
Failed to respond to late rally in Tokyo, with investors focusing on weak regional currencies. Resources underperformed.								
Austria	Credit Aktien	(u)	(u)	(u)	584.34 28/5	437.44 13/1	1.55	18.7
	ATX Index	1504.20	1509.46	1524.01	1628.55 28/5	1245.69 13/1		
Luxury hosiery and lingerie maker Wolford was among the leading gainers.								
Belgium	BEL20	3558.09	3523.13	3548.04	3558.09 13/7	2357.78 10/1	1.84	23.3
Traders noted unusually high activity in Fortis, the Belgo-Dutch finance group.								
Brazil	Bovespa	10416.0	10327.0	(c)	12299.08 15/4	9074.00 15/6	na	na
Investors were encouraged by Russia's deal with the IMF.								
Canada	TSE 100◆	451.28	452.51	454.07	475.63 28/5	390.03 12/1	1.59	22.2
	Metals Mins◆	3376.04	3397.68	3411.63	4360.61 10/3	3335.52 15/6		
	Composite◆	7365.20	7389.70	7413.20	7822.30 22/4	6239.98 12/1		
	Portfolio§§	3734.05	3744.72¥	3754.63	3965.81 28/5	3294.41 12/1		
Shares dragged down by weak banking and oil shares.								
Chile	IGPA Gen¥	3980.88	3976.69	3980.60	4891.85 17/3	3969.36 7/7	3.19	12.9
The market firmed as ADRs on Wall Street edged higher.								
China	Shanghai B	38.55	39.51	39.68	59.56 10/2	38.55 13/7	0.95	33.3
	Shenzhen B	77.66	78.62	79.50	98.97 10/2	77.66 13/7		
Tumbling yen weighed on hard currency shares. Volumes were very thin.								
Colombia	IBB	(u)	1084.18	1094.90	1431.46 7/1	1017.09 17/6	na	na
Czech Republic	PX 50	459.7	462.5	470.5	517.30 23/3	432.38 16/6	na	na
Denmark	CopenhagenSE	766.57	751.08	764.92	778.84 7/4	667.96 12/1	1.37	28.7
Rally in banking shares and Tele Danmark push shares higher.								
Egypt	Cairo SE Gen	357.05	(c)	358.2	393.19 21/4	349.49 2/2	na	na
Active trading in the cement sector failed to support shares								
Finland	HEX General	5230.25	5180.46	5236.47	5343.15 7/7	3326.43 12/1	1.89	17.1
HEX index higher as Nokia gained on strength on Nasdaq while bargain hunting boosted Merita.								
France	SBF 250	(c)	2727.37	2764.66	2773.67 8/7	1873.16 12/1	2.18	20
	CAC 40	(c)	4255.35	4318.16	4339.61 8/7	2962.54 12/1		
Germany	FAZ Aktien	1898.55	1872.42	1894.34	1898.55 13/7	1334.15 12/1	1.26	24.8
	Commerzbank	5589.50	5504.80	5582.00	5589.50 13/7	3835.20 12/1		
	DAX‡	6019.48	5982.42	5996.77	6019.48 13/7	4087.28 12/1		
Degussa was top gainer in computer trading on hopes of a rating upgrade by brokers.								
Greece	Athens SE	2685.65	2667.10	2674.28	2685.65 13/7	1389.33 29/1	1.61	20.9
	FTSE/ASE 20	1632.59	1629.88	1631.97	1632.59 13/7	786.18 29/1		
Agressive buying in blue chips and banks lifted shares to a fresh record.								
Hong Kong	Hang Seng	8099.20	8205.77	8433.78	11810.03 25/3	7462.50 15/6	5.06	8.3
	HKCC Red Chip	829.98	842.16	852.66	1775.09 27/2	813.05 15/6		
Weak yen and rising interbank rates kept investors away. China plays stalled after disappointing mainland economic data.								
Hungary	Bux	7752.38	7639.21	7717.16	9016.36 23/4	7049.35 28/5	na	na
IMF's aid package to Russia encourages buying. Drugs group Richter Gedeon rallied 4 per cent.								
India	BSE Sens.	3322.17	3401.74	3331.96	4280.96 21/4	3037.34 23/6		
	Crisil 500	634.75	643.04	633.09	815.62 21/4	579.17 23/6	na	na
Profit taking by domestic mutual funds following last week's 10 per cent rise, weighs on shares.								
Indonesia	Jakarta Comp.	459.67	463.58	470.32	554.18 2/2	342.97 9/1	2.02	18.3
Resolution of Golkar party leadership had little impact, with prices falling with the weak yen and regional markets.								
Ireland	ISEQ Overall	5434.29	5414.99	5440.38	5471.81 21/4	4054.36 2/1	1.77	22.8
Bank of Ireland lost ground on profit taking while CRH and Jefferson Smurfit also retreated.								
Israel	Tel Aviv 100	312.18	(c)	313.03	337.42 8/6	283.12 11/2	na	na
Banking shares were firm on foreign buying. Bank Hapoalim rose 1.4 per cent.								
Italy	BCI Comit 30	358.12	365.23	355.78	388.53 8/4	254.84 2/1	1.29	31.2
	Banca Com Ital	1552.92	1543.84	1555.29	1654.36 7/4	1072.35 2/1		
	Mibtel General	24780.0	24639.0	24688.0	26377.00 6/4	17209.00 2/1		
Fiat up 3.6 per cent on speculation of a tie-up with another European car group.								
Japan	Nikkei 225	16360.39	16090.06	16445.95	17264.34 2/3	14664.44 12/1	0.9	42.5
	Nikkei 300	248.70	245.38	249.95	257.43 10/2	224.65 12/1		
	Topix	1258.44	1241.50	1262.28	1300.38 10/2	1129.61 12/1		
	2nd Section	1342.69	1355.19	1351.06	1401.27 12/2	1173.76 14/1		
Rebounded from days low of 15,804 as investors took view Hashimoto resignation could spur action to boost the economy.								
Jordan	Amman SE	174.22	(c)	(c)	182.03 18/5	164.64 30/1	na	na
Malaysia	KLSE Comp.	421.31	428.62	447.85	746.38 27/2	421.31 13/7	3.73	10.4
Fears of further corporate failures and the weak yen took shares to a new nine-year low.								
Mexico	IPC	4534.69	4556.88	4532.59	5204.00 2/1	4049.99 15/6	1.39	10.5
Shares firmed on hopes of strong upcoming earnings announcements.								
Morocco	CMBA	822.60	823.10	(c)	898.13 22/6	669.57 21/1	na	na
Netherlands	CBS TtlRtnGen	1447.7	1431.3	1441.7	1447.70 13/7	1049.20 12/1	1.81	25.7
	CBS All Shr	818.4	810.2	816.0	818.40 13/7	599.20 12/1		
Insurer Aegon gained ground on options related buying.								
New Zealand	Cap. 40	2040.14	2065.14	2096.62	2359.02 20/3	1942.31 22/6	4.75	19
Weak yen weighed on Carter Holt Harvey and Fletcher Paper. Telecom, also down, dominated business.								
Nigeria	SE All-Share	5792.26	5832.81	5798.92	6504.57 11/2	2236.46 12/1	na	na
Norway	Oslo SE Ind	2215.34	2205.44	2209.58	2370.66 4/5	1860.91 12/1	1.66	16.7
Boxes crept higher but in very weak activity which slipped close to low for year.								
Pakistan	Karachi SE	774.73	777.26	833.00	1748.31 2/1	774.73 13/7	na	na
Volatile amid uncertainty over whether Pakistan will receive a disbursement of loan from the IMF.								
Peru	Lima Gen	1724.87	1712.44	1705.62	1993.61 4/5	1552.60 25/2	na	na
Philippines	Manila Comp	1775.85	1802.21	1828.40	2311.42 25/3	1518.09 9/1	1.47	13.8
Political uncertainties in Japan took shares lower for fifth consecutive day.								
Poland	WIG	16679.9	16348.2	16957.8	18593.70 11/3	13228.80 12/1	1.27	13
Shares rose, bringing to end three sessions of profit-taking, as hopes grew for interest rate cut later in week.								
Portugal	BVL 30	5822.98	5768.06	5770.68	6176.89 22/4	3879.27 2/1	1.74	42.8
	PSI 20	13309.55	13180.04	13191.06	14292.99 22/4	9031.84 2/1		
Banking stocks continued to push market higher on expectations of strong first half results.								
Russia	RTS	(c)	144.02	135.19	411.61 5/1	134.01 8/7	na	na
Shares rocketed higher after government, IMF and World Bank outlined multi-billion dollar credit package.								
Singapore	SES All-S'pore	300.49	306.32	309.06	437.88 19/3	289.04 18/6	3	12.9
	Straits Times	1053.19	1080.35	1103.65	1688.75 19/3	1040.66 18/6		
Knocked by political uncertainties in Japan and the weak yen. Banks and properties heavily sold.								
Slovakia	SAX	117.02	114.42	112.5	182.48 5/1	18.82 13/6	na	na
Technical gains in oil refiner Slovnaft and steelmaker VSZ pushed market higher in dull session.								
South Africa	JSE All Share	7082.7¥	7116.3	7126.0	8358.70 20/4	5666.00 12/1		
	JSE Gold	1004.1¥	1022.2	978.6	1152.70 6/7	672.50 18/3		
	JSE Indl.	8377.0¥	8372.3	8413.8	8942.70 20/4	6716.10 12/1	2.06	12.7
Stocks closed down on day but off intraday lows, after cautious sentiment weighed on investors.								
South Korea	KoreaCmpEx**	301.37	309.28	319.02	574.35 2/3	280.00 16/6	1.6	14.8
While Japanese political uncertainties weighed on prices, offshore demand for Samsung Electronics restricted the losses.								
Spain	Madrid SE	932.57	925.80	935.94	939.63 6/4	645.14 12/1	1.69	29.1
Market edged higher as gains on Wall Street helped to boost lethargic market.								
Sri Lanka	CSE All Share	811.60	812.80	(c)	788.70 4/6	669.60 25/6	na	na
Selling from retail investors helped pull index back.								
Sweden	AffarsvardnGen.	3898.4	3859.3	3901.43	3911.10 8/7	2883.19 12/1	1.69	23.8
Shares spurred higher in late trade after early Wall Street losses were erased.								
Switzerland	SMI Index	8141.9	8192.4	8205.0	8227.20 8/7	6092.10 12/1	1.06	25.7
	SPI General	5069.73	5113.75	5123.14	5138.01 8/7	3781.26 12/1	na	na
Profit-taking in index heavyweights and derivatives linked trade sent market lower.								
Taiwan	WeightedPr.**	7815.53	7883.15	7947.53	9277.09 2/3	7117.11 12/6	1.29	30.4
Political uncertainty in Japan weighed on market. Electronics fell 1.8 per cent. Turnover was a dull T$78bn.								
Thailand	Bangkok SET	269.75	274.26	(c)	558.82 3/2	257.44 16/6	4.21	38.3
Fell with regional markets in response to political uncertainties in Japan.								
Turkey	IMKB Nat 100	4224.01	4344.31	4403.04	4505.93 8/7	2777.06 10/2	2.49	21.5
Investors unsettled by dispute among coalition partners over civil servants' pay rises for second half of year.								
Venezuela	IBC	4542.06	4580.63	4535.79	7658.59 23/3	4521.30 9/7	na	na
Zimbabwe	ZSE Industrial	7444.82	7414.80	7398.05	8785.71 31/3	6669.38 12/6	na	na
Industrials posted second straight gain although market remained concerned by rising inflation.								
WORLD	FT/S&P World(8)	(u)	298.94	297.00	299.43 8/7	243.98 9/1	na	na
	MS Capital Intl$	1111.0*	1108.2	1106.5	1115.10 8/7	896.50 12/1	na	na
CROSS-BORDER	DJ Stoxx 50	3524.15	3517.15	3534.63	3544.80 8/7	2574.61 12/1		
	DJ Euro Stx 50	3561.74	3532.86	3542.20	3593.07 8/7	2480.81 12/1		
	FTSE E300	1286.00	1282.33	1290.48	[illegible] 8/7	971.85 12/1		
	FTSE E100	2986.65	2959.09	2983.70	2998.66 8/7	2236.46 12/1	na	na
	HSBC Dgn	(c)	182.55	186.08	273.91 26/3	168.65 12/1	na	na
	ING Brngs Emrg	(c)	127.06	128.08	180.66 22/4	126.88 18/6	na	na

THE NASDAQ STOCK MARKET

4 pm close July 13

THE NASDAQ STOCK MARKET

AMEX PRICES

4 pm close July 13

EASDAQ

The EASDAQ All Share Index (EASI) for 13th July: 1038.78 down 0.79% Day's high: 1127.67 Day's low: 1042.34

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
4Front Technologies	US$11.375		4320	11.5	11.25	Gruppo Formula	ITL42000	+100	0	55500	14250
ActivCard	US$4.875	+0.125	21050	6.375	2.25	Innogenetics	US$68.75	−0.5	31075	74	9.875
Algol◆	ITL43750	+500	835	44250	13250	Integ. Surg. Syst.◆	DEM7.8	−0.6	3800	12.2	7.1
Artwork Systems	US$17	+0.25	14550	21.125	5.875	Lernout & Hauspie	US$59.875	−2	20816	65.25	33.125
Autonomy Corp.	US$4	−0.1875	270905	4.1875	4	[illegible]	US$19.1875	−0.125	271095	20.0625	7.375
[illegible]◆	FFr17		1000	22.5	9.5	Mercer Intl◆	US$10		0	12.875	8.125
City Bird Holding	US$7.875	−0.0625	2400	10.3125	6.875	NTL	US$50.625	−0.125	0	59.75	20.5
Debonair Holdings	GBP2.15	−0.05	3400	7.1	1.7	Option Int'l	US$48.25	−0.375	16481	67.63	10.88
Dr Solomon's	US$40.75	+1	9648	44.25	23.75	Orthovita Inc	US$10.75		34836	11	10.5
EDAP TMS	US$4.5	−0.1875	0	9.125	4.5	Parid Racing Syst.	ATS5010		1740	5150	3700
ESAT Telecom	US$43.1875	+0.4375	100	43.1875	13.5	Pharming	NLG30.75	+0.5	308277	30.75	10.25
Espace Prod. Int.	FFr119.15	−0.3	0	121.25	89.3	Portech	US$3.875	−0.5	4050	7.625	2.125
Esprit Telecom	US$25.375	+0.875	10520	25.375	4.875	Royal Olympic	US$8.625		50	18.5	8.625
Estel International	Sch567	−8	2430	690	580	Schoeller-Bleckmann◆	Sch1465	−18	1520	1795	854
F.L.V. Fund	US$21.25	+4.25	903402	21.25	15.75	TelDaFax	DEM64.25	−1.5	500	70.38	61.13
Global Graphics	FFr219.5	+1.5	2455	219.5	190	Topcall Intl◆	Sch3360	−13	1720	3620	622
Global TeleSystems	US$45.875		104	49.5	35.75	Turbodyne Technol◆	US$9.4	−0.1	3465	10.95	2.1
[illegible] Telecom	US$22.125	+0.25	7430	27.25	12.688						

Prices for 13/7/98. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be EASDAQ offices are located in Brussels (Tel. 32 2 227 65 20) and in London (Tel. 44-171-489 8890). Annual/interim reports can be obtained for companies with a ◆ marked in this box. Annual Reports Club telephone +44 181 770 0770. For further details please see Share Price pages.

STOCK MARKETS

Focus on Japan as Hashimoto steps down

WORLD OVERVIEW

The resignation of the Japanese prime minister and the agreement on an International Monetary Fund financing package for Russia dominated trading on financial markets yesterday, *writes Philip Coggan*.

But there were sharply different reactions in different regions to the Japanese news. Whereas the Nikkei 225 average in Tokyo and European markets took heart from the news – on the grounds that a successor to Ryutaro Hashimoto may be more committed to reform – Asian markets were lower as investors reflected that economic change may be delayed.

Conflicting statements about tax reform proposals had confused world markets in the run-up to Japan's weekend elections and there is potential for further confusion as a new leader and cabinet are found.

The yen reflected the influence of both schools of thought, initially dipping to Y144 to the dollar but then rebounding to Y141 in late European trading.

There are signs that the recent relatively steady performance of the yen and the plan for bridge banks to help deal with the weakness of the financial system were persuading some investors back into the Tokyo market. Lehman Brothers' global strategy team has added 4 percentage points to its portfolio weighting for Japan, at the expense of the US and UK markets.

The latest Merrill Lynch survey of global fund managers found that US and European investors have become enthusiastic about Japanese equities, with buyers outnumbering sellers by more than 20 percentage points in each region. Both surveys were undertaken before the weekend elections.

The Russian deal, which involves the IMF lending a further $22.6bn, was taken in a more consistently positive light by equity investors, with the Moscow stock market rising 9.2 per cent on the day. Concerns about Russia's finances have prompted sharp falls in the market this year.

There were also signs that relief over Russia was persuading some investors to switch out of the "safe haven" of bonds and into shares. The benchmark 30-year US Treasury bond was down by about a point in early trading.

European bourses resumed their charge to new highs with Athens, Amsterdam and Frankfurt recording closing peaks.

Wall Street opened in subdued fashion and the *Dow* Jones Industrial Average slipped back below 9,100 by the time European markets closed.

London markets, Page 32

Dow edges down ahead of earnings news

AMERICAS

US stocks were mixed in morning trade ahead of today's large diary of corporate earnings reports, *writes William Lewis in New York.*

By late morning the Dow *Jones Industrial Average* had fallen 7.41 to 9,098.33 and the Standard & Poor's 500 index had nudged up 0.61 to 1,164.94.

The Nasdaq composite index, which includes key technology stocks and hit a new high last week, was up 16.51 at 1,959.55. The Russell 2000 index of smaller companies was down a marginal 0.07 at 453.60.

Internet stocks continued their zig-zag run with Amazon.com, the on-line book store, down 4\frac{1}{16}$ or 4.1 per cent at 95\frac{1}{16}$ on continuing concerns about its valuation in the market.

E*Trade, the electronic brokerage, was up $5¼ or 21.4 per cent at $29¾ on news that Softbank, the Japanese software company, was investing $400m to give it a 27.2 per cent stake in the company.

Egghead was up 3\frac{1}{16}$ or 14.3 per cent and American Online was up 2\frac{1}{16}$ or 1.9 per cent at 114\frac{11}{16}$.

Zapata, the fledgling internet company which last week announced plans to split into two companies, saw its shares *rise* $2¾ to 19\frac{1}{16}$. Zapata used to be an oil drilling company but it is aggressively investing in web sites to become "one of the largest internet companies in the world", it says.

Among blue chip stocks, Chrysler, the first of the big three auto manufacturers to report second-quarter earnings, saw its shares rise $$\frac{7}{16}$ at 56\frac{1}{16}$. Chrysler is planning a merger with Germany's Daimler-Benz.

Walt Disney saw its shares rise 1\frac{1}{16}$ or 2.8 per cent to 39\frac{1}{16}$ *and DuPont put on $1¾* at 69\frac{1}{16}$.

Among banks, JP Morgan was up 1\frac{1}{16}$ at $127¼ and First Union $$\frac{1}{16}$ higher at 63\frac{11}{16}$. First Chicago NBD, the bank which is merging with Banc One, reported second-quarter earnings and its shares moved up $$\frac{1}{16}$ to $94¾.

TORONTO drifted lower at midsession in listless trade. The TSE-300 composite index was 20.97 lower at 7,368.75 in volume of 33m shares.

Bank and oil company shares were the main losers. Royal Bank of Canada fell 75 cents to C$89.70 while Canadian Imperial Bank of Commerce slipped 50 cents to C$48.10.

An advance in gold and precious metals tempered the losses. Gold heavyweight Barrick Gold rose 55 cents to C$27.35.

MEXICO CITY extended early gains on expectations that corporate earnings reports would be favourable. The IPC index was 67.17 or 1.5 per cent higher at 4,634.05 around noon. Bellwether Telmex was 35 centavos higher at 22.90 pesos.

BUENOS AIRES moved ahead on continuing foreign demand in spite of lingering concerns over Japan's uncertain outlook and renewed local political tensions.

The Merval index was 9.15 or 1.5 per cent higher by midsession at 621.95.

Tokyo rises after PM quits

ASIA PACIFIC

News of the resignation of Ryutaro Hashimoto as Japanese prime minister enabled **TOKYO** to overcome early losses and shares closed higher, *writes Alexandra Harney.*

After the Liberal Democratic party's devastating defeat in parliamentary elections over the weekend, investors were optimistic that Mr Hashimoto's successor would tackle Japan's eco*nomic problems more* aggressively.

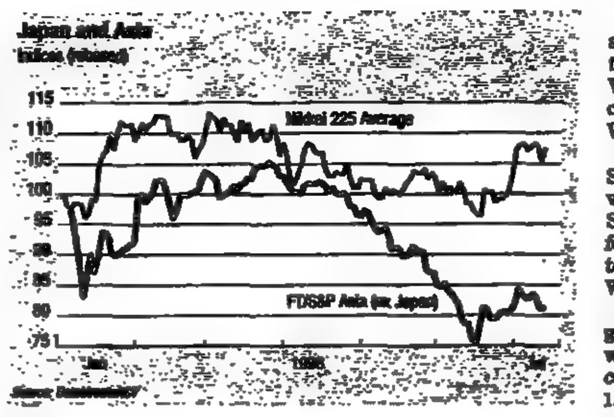
The Nikkei 225 average rose 270.33, or 1.7 per cent, to close at 16,390.39. Trading moved in a broad band between a low of 15,804.35 and a high of 16,360.39. In Osaka, the OSE average edged 0.82 lower to 17,014.43.

Banking issues continued to be among the most heavily traded stocks. Analysts attributed this to investor hopes that reform of the financial sector would be the new administration's first priority after a new prime minister was named. Banks rose 2.2 per cent overall.

The Long Term Credit Bank, which is in merger talks with Sumitomo Trust, lost Y2 to close at Y57. The bank is said to be suffering from liquidity problems. Sakura was up Y14 to Y375 and Sanwa Bank gained Y52 to Y1,278.

The construction sector, which analysts said was expected to benefit from additional public spending under the next administration, eased 0.1 per cent. Taisei lost Y57 to Y657 and Mitsui Wood Systems fell Y10 to Y350.

Volumes were thin at 389m shares traded. The Topix average of 1,322 first-section issues climbed 14.94 points, or 1.2 per cent, to 1,256.44. Gainers exceeded losers 710 to 447, with 119 shares unchanged.



Regional markets, by contrast, were unsettled by developments in Tokyo on concerns that the ruling party's drubbing could derail economic reform plans.

SINGAPORE stumbled 3.4 per cent as banks and property shares declined. The Straits Times Industrials index fell 37.16 to 1,053.19.

Property shares were sold off with the sub-index losing 3.3 per cent. City Development fell 12 cents to S$4.66 while Singapore Land retreated 20 cents to S$3.12. Electrical stocks were also lower on concerns about demand in the US. The electronics index declined 1.3 per cent.

BANGKOK saw losses in all key sectors except commerce. Actively traded bank stocks led the declines with a fall of 3.4 per cent. The SET index ended 7.51, or 2.7 per cent, down at 266.75 in turnover of Bt1.3bn.

Among heavily traded stocks, Bangkok Expressway fell Bt1.75 to Bt16.50.

Bangkok Bank lost Bt2 to Bt45.50 and Krung Thai Bank fell Bt0.3 to Bt5.

HONG KONG posted its lowest close since June 17 as the Hang Seng index finished 106.57, or 1.3 per cent, down at 8,099.20 after climbing back from an intra-day 7,012.33.

Analysts noted that bleak economic data from China also weighed on sentiment, sending the H-share index slumping 4 per cent and the red-chip China-Affiliated Corporations index down 2.5 per cent.

HSBC Holdings fell HK$1.50 to HK$180.50, Hutchison 90 cents to HK$37.70 and China Telecom 20 cents to HK$12.35.

SEOUL was hit by political and economic uncertainty surrounding Japan. The Kospi index declined 3.60, or 1.2 per cent, to 301.37 as the yen briefly fell to the Y144 level.

Banks were traded actively, with Hanil Bank, the volume leader, falling Won5 to Won530. Commercial Bank of Korea retreated Won35 to Won495.

Heavy overseas buying in Samsung Electronics provided underlying support. Samsung, which accounts for nearly 9 per cent of the total market capital, gained Won1,200 to Won45,700.

KUALA LUMPUR lost ground on fears of a further weakening of the yen. The composite index fell 7.31, or 1.7 per cent, to 421.81.

Tenaga Nasional lost 6 cents to M$4.54, while Sime Darby declined 12 cents to M$2.59. Telekom Malaysia defied the trend and rose 15 cents to M$6.65.

SYDNEY's losses were spread across the board and the All Ordinaries index fell 29.3 to 2,718.6 in moderate turnover of A$904.8m.

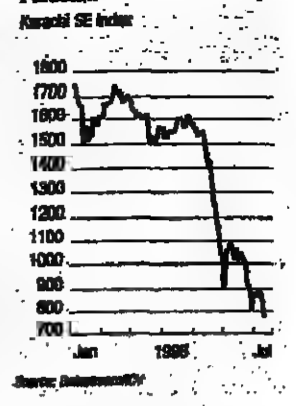
Telstra, however, managed to buck the trend with a 6 cent rise to A$4.35 after the government's plan to sell its remaining two-thirds of the telecommunications group was rejected in the upper house Senate on Saturday. Analysts said this could mean a continued scarce supply of the widely-held stock.

Mining stocks struggled with poor commodity prices. BHP fell 15.3 cents to A$14.05, but WMC held up better than most with a 1 cent fall to A$4.99.

EMERGING MARKET FOCUS

No relief yet for Karachi

Karachi's share prices were caught in a narrow trading range yesterday as investors awaited news from Washington *of discussions between* the IMF and representatives of the G7 industrial countries over Pakistan's impending debt crisis.



The benchmark KSE-100 index, down almost 56 per cent since its January high for the year, closed 2.53 weaker at 774.73. Yesterday's tone provided a break from some turbulent sessions recently that have seen prices fall as much as 7 per cent in a single day.

The downbeat mood is largely the result of investors bracing for Pakistan's *first ever sovereign default* on its $42bn foreign debt. Analysts say continued resistance from the G7 to continue an IMF loan programme is causing much of *the pessimism. Many are* convinced that, without IMF support, the country will default and the investment outlook could be undermined for months to come.

Those who have argued that the present low share prices pose a good opportunity for bargain hunters increasingly find themselves unable to defend their case.

"It's still not clear if the market has bottomed out, so to say that the prices will never be better than those on offer today is naive," said a foreign businessman in Karachi.

Some critics have also accused prime minister Nawaz Sharif's "business friendly" regime of mishandling the economy after the country's first nuclear tests on May 28. The tests, prompted by nuclear tests in neighbouring India, triggered western sanctions that led the G7 to say it would block further multilateral assistance to Pakistan.

Since the tests, the central bank has issued more than 30 orders announcing measures to tighten exchange controls and prevent a flight of precious foreign exchange. Analysts say such a large number of orders in *so short* a time is unprecedented and has created uncertainty over the future of banking and investment policies.

"No news on a given day *is good for the market,"* said Yasin Lakhani, chairman of the Karachi stock exchange yesterday. He said the orders on foreign currency controls had strengthened the impression that the government has been incompetent.

"Now, investors are looking for a new economic team to begin restoring confidence," he said, adding that there was little faith left in either the central bank or the finance ministry.

"People think it's a directionless market and they also think that it's a directionless government running the country," said Nasir Bukhari, chief executive of Khadim Ali Shah Bukhari brokerage house. "The anxieties over the IMF have damaged confidence."

Some analysts believe the market may remain stuck within a narrow trading range except for the occasional shifts caused by short-covering. "Nobody is going to take long-term positions unless the long-term prospects become clear first," added Mr Bukhari.

Farhan Bokhari

Cautious Jo'burg weakens

SOUTH AFRICA

Johannesburg closed weaker but off the day's lows after a cautious session.

The overall index finished down 33.6 at 7,082.7 but industrials, which were in negative territory for much of the day, finished 5 higher at 8,377. Rand hedge stocks, which benefited from the rand slide last week, came under pressure.

Golds lost 18 to 1,004.1 after breaking below 1,000 in spite of an improvement in the bullion price.

IMF deal lifts Moscow

MOSCOW surged 9 per cent after the government, International *Monetary Fund* and World Bank outlined a multi-billion dollar international credit package for 1998 to shore up the rouble and stave off economic collapse.

The RTS index closed up 13.18 at 157.2 after the annoucement was made, following sustained gains all day on speculation about the amount of the package.

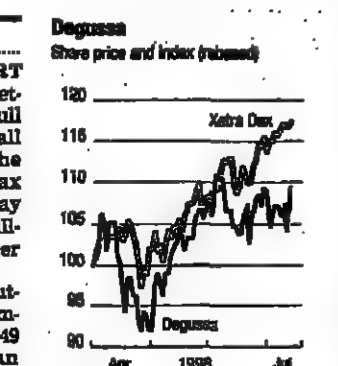
Analysts noted, however, that by the end of last week the market had fallen 65 per cent from its high for the year on January 5. Reported volume was $40m, strong *compared with recent figures* but only about half the level that traders say is *healthy for the market.*

Wall St curbs Dax advance

EUROPE

Shares in **FRANKFURT** returned to their record setting ways although the dull early performance on Wall Street kept a cap on the advance. The Xetra Dax index peaked at an intra-day high of 6,054.78 before pulling back to close 22.07 higher at a record 6,023.31.

The chemicals sector outperformed. Diversified chemical group BASF rose DM1.49 to DM93.09 after Morgan Stanley Dean Witter raised its recommendation on the stock and upped its target price to DM115 from DM95.



Degussa added DM6 to DM115.55 but analysts said there were few plausible explanations for the price rise beyond suggestions that the shares have lagged behind other chemical stocks recently and are simply catching up.

SAP, the software group, recouped some of the 4.5 per cent lost on Friday when investors demonstrated their disappointment at a 40 per cent rise in first-half profits and concern over the company's warning that the Asian financial crisis had a greater *effect on second-quarter* business than expected.

The preference shares rebounded DM33.90 to DM1,108.90 on the view that Friday's falls, which at one stage took the shares down 10 per cent, had been overdone.

Luxury car maker Daimler Benz lost DM3.20 to DM175.20 after hints at the weekend that Deutsche Bank might be willing to divest part of its stake. Elsewhere, Adidas was up DM6.90 at DM296.90, continuing its rally of last week after Robert Dreyfus, the group's chairman, forecast a 20 per cent rise in full-year pre-tax profits.

ZURICH lost ground as investors took profits in index heavyweights Novartis, Nestlé and Roche. The market came under additional pressure from derivatives-linked activity and the SMI index lost 50.3 to 8,142.2.

Roche certificates lost SFr130 to SFr15,290, while *Novartis, due to publish six-*month sales data on Thursday, slipped SFr61 to SFr2,427. Nestlé shed SFr55 to SFr3,239.

Financials put in an unexpectedly strong performance in spite of higher money market rates. Insurer Zurich rose SFr31 to SFr1,106, still benefiting from an announcement last week that it had applied for a bank licence in Switzerland.

CS Group closed flat at SFr355.50, off an intra-day high of SFr359.50 after rumours resurfaced that the bank may merge with another institute.

Private banks continued to rise on positive expectations for their first-half results following Gotthard Bank's strong showing last week. Gotthard Bank gained SFr45 to SFr1,299, Vontobel was up SFr55 at SFr2,560 and LGT rose SFr50 to SFr1,830.

AMSTERDAM hit a new high as investors focused on the rise in Japan's Nikkei average. The AEX index rose 19.58, or 1.6 per cent, to 1,268.04.

Aegon, the insurance group, gained Fl 4.50, or 2.3 per cent, to Fl 199.90 on options-related buying.

Akzo Nobel, the chemicals company given clearance by the European Commission to buy Courtaulds of the UK, rallied Fl 5.70, or almost 5 per cent, to Fl 120.90.

KPN, the telecommunications company, gained FFl 3.30 to Fl 91.30 on active buying.

MADRID ended marginally higher, following the *trend elsewhere in Europe.* The strength of banking shares also supported the market and the general index rose 6.77 to 932.57.

Leading banks firmed ahead of first-half earnings announcements. Santander rose Pta110, or 2.7 per cent, to Pta4,185. Banco Bilbao Vizcaya added Pta40, or 1.4 per cent, to Pta2,890 following its 3-for-1 share split. Argentaria gained Pta35 to Pta3,680.

Tabacalera jumped Pta100 to Pta3,645 on hopes that it would raise the price of cigarettes. Some brokers have been upgrading recommendations on the back of an expected price rise by the recently privatised group.

Other blue chips were also higher, with Endesa up Pta15 at Pta3,445 and Telefonica up Pta80 at Pta7,560.

MILAN also followed neighbouring bourses higher, with the Mibtel index closing up 141, or 0.6 per cent, at 24,780.

Fiat rose L197, or 2.5 per cent, to L8,326 on hopes of a *possible tie-up with another* European car group. Overseas buying pushed insurer Generali up L1,481, or more than 2 per cent, to L8,335.

Olivetti gained L100, or 3.8 per cent, to L3,175 on reports that its mobile telephone unit had signed up four million users.

STOCKHOLM was supported by a rally in drug shares. The general index rose 33.06, or 0.9 per cent, to 3,811.83, while the drug index added 1.4 per cent.

Astra gained SKr2 to *SKr160 and Pharmacia &* Upjohn rose SKr1 to SKr386. Volvo *fell* SKr6.5 to SKr252 on lingering disappointment that its widely speculated tie-up with Volkswagen had failed to materialise.

● Paris was closed for a public holiday.

Written and edited by Michael Morgan, Emiko Terazono and Peter Hall

هكذا من الاصل

Japan

A Japanese version of the Thatcher revolution might help the nation solve its crisis, say some observers. What is needed, is the courage to move to a more flexible and market-driven economy. **Gillian Tett** reports

Wanted: a saviour in the mould of 'Sacha-shusho'

Japan needs its own version of Margaret Thatcher. That, at least, is the tempting thought for westerners now looking at the world's second-largest economy.

For as the dust settles after Japan's Upper House Elections last Sunday, it reveals a country gripped by *a sense of crisis, national* decline – and political paralysis.

Five decades ago, Japan started rebuilding its economy from the ashes of the second world war with startling speed and vision, using a dirigiste model of government-regulated "capitalism". A mere 10 years ago, it was basking in the glory of the "bubble" years.

But now it is painfully clear that the system which provided such strong growth in the post-war period is not working. The country has slipped into recession for the first time since the Opec oil price crisis of 1974.

The financial sector is creaking under bad loans and insolvent companies. The government budget is *ballooning under the weight* of an ageing population. Productivity is falling. Unemployment has surged to a post-war high of 4.1 per cent. And cracks are emerging in Japan's famous system of *lifetime employment.*

"We are in a crisis," the normally cheerful Eisuke Sakakibara, vice-minister of finance for international affairs, recently admitted. "Probably the worst crisis for Japan since the end of the [second world] war."

This malaise has left western diplomats – and some Japanese – calling for a radical rethink of the post-war model. What is needed, many mutter, is the courage to move to a more flexible and market-driven economy.

Perhaps a scale of change akin to the *Meiji* revolution which industrialised Japan a century ago. Or, to use another parallel, a Japanese *version – in scope, if not* detail – of the "Thatcherite" revolution which halted Britain's national malaise in the 1970s.

Many Japanese might retort, probably correctly, that such Anglo-Saxon models are ill-suited for their culture. But the problem is that Japan's leadership is not yet offering any clear and co-ordinated vision of reform. It lacks, in other words, its *own version of Sacha-shusho* (Mrs Thatcher). And no group has yet emerged to push proactive change through in this consensus-driven society.

Some optimists might suggest this situation is changing. For over the past year there have certainly been some striking reforms. After initially denying that there was an economic slowdown, the government performed a fiscal U-turn this spring and produced a Y16,700bn stimulus package of tax cuts and public spending.

It has also recently acknowledged that there are at least Y77,000bn of problem loans in the banking sector *– some analysts fear that the* true figure may be higher.

Deregulation is also proceeding. The "Big Bang" reforms of the financial sector, for example, started on April 1. Liberalisation is quietly taking place in other sectors, such as retailing and petrol stations. Most encouragingly of all, these measures are having some impact on "Japan Inc."

Last November, something *once inconceivable* happened: three large financial institutions failed. Big Bang is leading some banks to become more discriminating about how they price capital. This in turn is triggering bankruptcies, and *forcing* growing number of companies to tap the capital markets for funds. And as capital becomes more accurately priced, this has a "knock-on" effect in industry.

Some companies are moving away from their traditional preoccupation with sales growth and market share. Companies such as Kao, the cosmetics and household products group, are placing greater emphasis *on shareholder value and* the return on capital.

This drive for greater efficiency is beginning to break the social contract between labour and the corporate sector: a few companies, such as Hino, a truck manufacturer, have started to quietly lay off staff.

Some employees are slowly also changing their attitudes. This year's clutch of university graduates, for *example, has shown* an unprecedented level of disenchantment with working for traditional Japanese companies. Employment agencies for temporary staff are growing rapidly.

Such steps are striking. But change remains, at best, piecemeal. Indeed, for every reform step that has occurred, there are still countless examples of foot-dragging. Irrespective of "Big Bang", for example, banks are still supporting a few favoured – and hopelessly weak – "allies".

Sectors such as construction remain heavily regulated. Deregulation often contains "catches": in retailing, *for example,* the old rules have been lifted – but replaced with new, tighter environmental restrictions. The instinct for keeping the status quo, in other words, remains very strong. As Edward Lincoln, head of the Brookings Institute, a US think-tank, puts it: "Among the bureaucrats and politicians there remains a strong faith in the Japanese style of capitalism."

This is discouraging. But what is perhaps more alarming is that as the pressures build, the government seems to be gripped by policy paralysis.

The bureaucracy, which *has effectively run the country* for five decades, is in growing disarray due to recent corruption scandals. And the ruling Liberal Democratic Party is dominated by rivalries between warring, personality-based factions.

"The last year was a year of disastrous policy failure for the LDP," says Takashi Kiuichi, economist at Long Term Credit Bank. "What has become apparent is that *elder politicians are hopeless* amateurs at policy-making."

The opposition is divided and weak. Most strikingly, most voters are apathetic – partly, it seems, because they doubt they could force change through the current political system. "The real problem in Japan is political, not economic," says one frustrated western diplomat. Or as Toyoo Gyohten, a former Bank of Japan official *says more tactfully:* "The confusion in Japan's economic policy has largely stemmed in recent years from an inability to pinpoint who is in charge."

Could this change? Perhaps. *After all, the policy* paralysis notwithstanding, there are pressures building for reform. International investors are now wielding more muscle. In the past year, for example, the proportion of trades involving non-Japanese parties on the Tokyo Stock Exchange surged to 45 per cent.

The Japanese government now appears almost slavishly sensitive to market fluctuations. Many recent policy announcements have emerged only when the market has slumped.

Furthermore, Japan's trading partners, particularly the US, have become strikingly more vocal in their demands for reform.

The crisis in the rest of Asia has introduced an important new twist: Japan's malaise is no longer seen as a domestic problem, given that Japan accounts for 70 per cent of Asia's gross domestic product.

When Asian and G7 leaders met in Tokyo last month, there was a volley of complaints about Japan's failure to reform. This worked: shortly afterwards, Japan unveiled new measures to resolve the banking sector problems.

Within Japan as well, consensus is building for change. Some younger bureaucrats now admit, in private, the need for radical reform. The Japanese media is increasingly critical of the government (perhaps because the political confusion appears to have left the *government less able to control* the press).

Even business is raising its voice: Norio Ohga, chairman of Sony electronics group, recently warned that without action Japan would *fall into a crisis similar to* the US depression of the 1930s.

Add all this together, and it is just possible to believe that the coming year could become a turning point. After all, Japan has changed direction in the past, after taking time to build consensus.

External shocks have often driven this change. The Asian problem may, *perhaps, prove to be the shock* needed this time. In two decades, a reformed and confident Japan could have almost forgotten the current malaise – just as the UK's optimists today are apt to *forget the 1970s.*

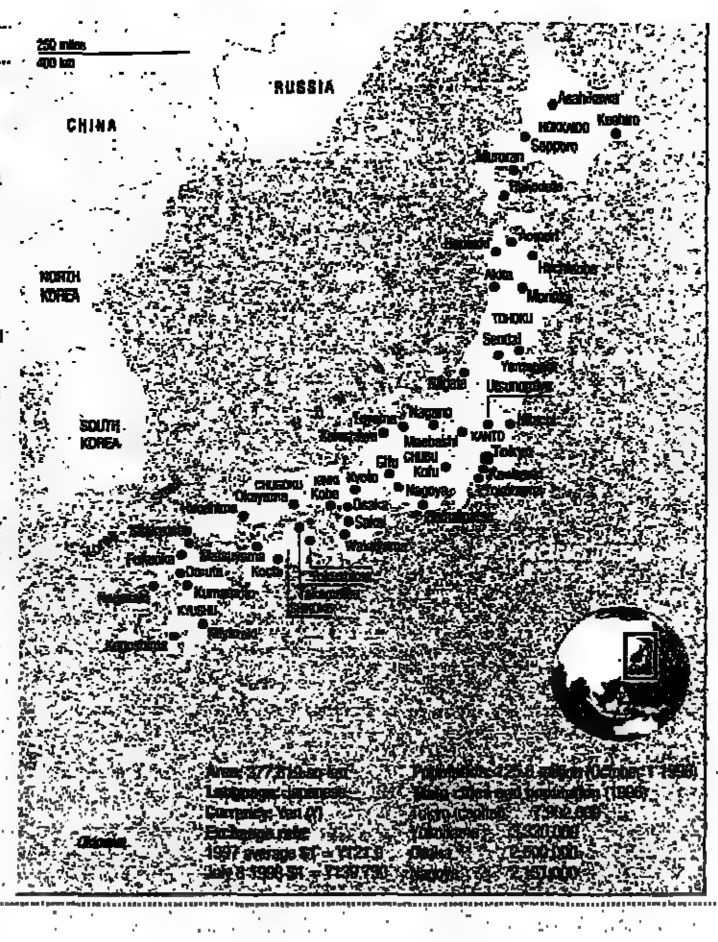
And yet, the question remains: can Japan do this without a "Thatcher" – or, more realistically, a group which has a strong vision of change? So far such a group has not emerged through the election process.

Unless one does in the next few years, there is a real risk that for Japan the 1990s could become a lost decade.

Constitution

- **Official name**
Japan
- **Form of government**
Representative democracy
- **The executive**
The prime minister is chosen from a ballot of the *Diet* (parliament) and appoints a cabinet, a majority of whose members must also be members of the Diet
- **Head of state**
Emperor Akihito
- **National legislature**
Bicameral Diet; comprising the 500-member House of Representatives, elected every four years, and 252-member House of Councillors, elected for six-year terms, with half of its number elected every three years. Under 1994 legislation, there are 300 single-seat constituencies and 200 seats filled by proportional representation in the House of Representatives
- **Legal system**
A US-style Supreme Court, appointed by the cabinet, heads a legal system of lesser courts divided into four areas: the High Court, District Courts, Family Courts and Summary Courts
- **National elections**
October 1996 (House of Representatives); next elections due by 1998 (half of House of Councillors) and 2000 (House of Representatives)
- **National government**
The ruling Liberal Democratic Party (LDP) holds 261 seats in the 500-seat House of Representatives. The new Minshuto (Democratic Party of Japan–an amalgamation of four parties of which the original Minshuto is the largest) holds 92 seats. The second largest opposition group, the Peace and Reform Network, holds 47 seats. A new cabinet was installed in September 1997

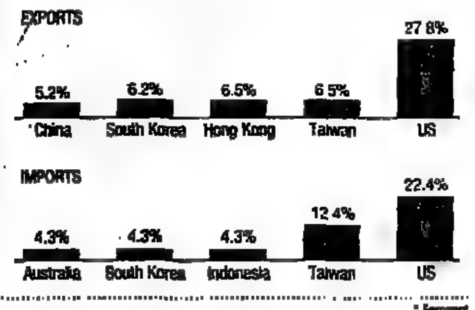
Source: EIU; ING Barings



Economic summary

	1999*	2000*
Total GDP ($bn)	4,169	4,652
Real GDP growth (annual % change)	1.8	2.3
GDP per head ($)	32,836	36,520
Inflation (annual % change in CPI)	0.4	0.8
Unit wage costs (annual % change)	0.5	1.0
Industrial production (annual % change)	1.4	1.2
Unemployment rate (% of workforce)	3.7	3.6
Broad money supply (annual % change)	3.43	3.50
Foreign exchange reserves ($bn)	221	230
Government expenditure (annual % change)	0.0	-0.1
Government debt (% of GDP)	106.3	110.2
Current account balance ($bn)	109	123
Merchandise exports ($bn)	383	422
Merchandise imports ($bn)	269	294
Trade balance ($bn)	114	128

Main trading partners (share of total trade to world 1997)



* Forecast

THE ECONOMY • by Gillian Tett in Tokyo

Predictions of immediate crisis appear excessive

But although the recession is grim, some economists are forecasting growth next year

The population is ageing sharply: senior citizens celebrate 'Respect for the Aged' national holiday on September 15 at Tokyo Disneyland AP

Ten years ago, western pundits fretted that Japan's economy was so strong it would conquer the world. A decade later, though, the tables have turned.

At the start of this year, Japan fell into its worst recession since the oil shock of 1974: output dropped by an annualised 5.3 per cent in the first quarter of 1998, the second consecutive decline.

Consequently, the issue worrying pundits is whether it is Japan's economic weakness which now poses a global threat. Could the economy, in other words, be about to collapse?

In the short term, at least, the answer is probably "No". For just as fears about Japanese economic domination in the 1980s proved to be exaggerated, so, too, predictions of an immediate crisis appear excessive.

After all, the country is still rich: it has some Y1,200,000bn of savings. It has some healthy niches of manufacturing. And while the current recession is grim by Japanese standards, private economists are, on average, only forecasting a contraction of 0.5 per cent in 1998 – followed by growth of 0.9 per cent next year, according to Consensus Economics, a research group.

But what is more alarming is not the scale of the immediate downturn, but Japan's longer-term structural decline. For the current recession comes after several years of stagnation. And although the government has successfully prevented this from turning into a collapse, its policy tools appear increasingly ineffective – and unsustainable.

The basic problem is that Japan's economic structures remain stuck in the quasi-command model of the past 50 years. When its population was young, and the country was rapidly rebuilding a manufacturing base after the second world war, this dirigiste model delivered rapid growth. And though productivity started to slow in the 1980s, this was masked by the rapid growth in asset prices during the 1980s bubble.

But asset prices have now collapsed. Meanwhile, the population is ageing sharply and Japan's old manufacturing sectors are losing competitiveness compared to other Asian rivals (a tonne of steel produced in Japan, for example, now costs $156, compared with $67 in India, $27 in China and $17 in Korea.) Consequently, productivity has slumped – pulling down the growth rate.

So far, the government has tried to stave off the alarming implications of this trend by throwing money at the problem. Between 1992 and 1995, for example, it unveiled a series of Y75,000bn "stimulus" packages, featuring both tax cuts and public spending. This spring it produced another Y16,700bn package to offset the current recession.

And this spending has had some impact. The Organisation for Economic Co-operation and Development, for example, estimates that the post-bubble downturn would have been twice as severe without this spending. And this year's offering – which includes tax cuts and public spending equivalent to about 2 per cent of gross domestic product – is expected to boost growth by the autumn.

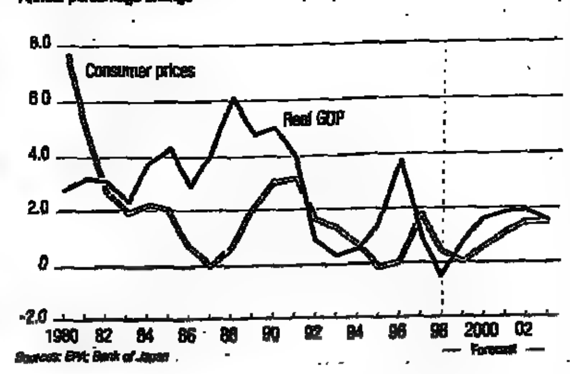
A recent "Tankan" survey of business sentiment conducted by the Bank of Japan in June suggests that some companies are already becoming slightly more optimistic. As Ron Bevacqua, economist at Merrill Lynch, says: "Barring unforeseen shocks to the economy, it is possible that the cycle could bottom this year."

But so far none of these packages has managed to deliver sustainable, long-lasting growth. Indeed, the current recession has emerged partly because the 1995 package finished in the spring of 1997. And there seems to be little reason to believe that the current Y16,700bn offering will be any better – particularly since the current weakness in the rest of Asia is now hurting Japan's exports.

As Tetsufumi Yamakawa, economist with Goldman Sachs, argues: "I think growth may rebound this autumn, but I do not think it will be sustainable."

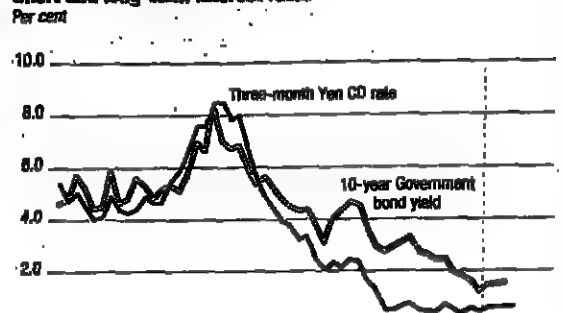
This has left some politicians calling for more packages: the Liberal Democratic Party, for example, is already muttering about unveiling new tax cuts in 1999. But even Japan cannot afford to throw money at the problem indefinitely: its budget deficit is already calculated to be some 7 per cent of GDP. Meanwhile, Moody's and IBCA, two US credit rating agencies, recently warned that they may reconsider Japan's top notch sovereign debt rating because of unease about public finances.

Real growth and inflation
Annual percentage change



Sources: EPA; Bank of Japan

Short and long-term interest rates
Per cent



Sources: EPA; Bank of Japan

But if fiscal pump-priming is problematic, the other policy tools also look blunt. In the past three years, for example, the yen has weakened from Y80 to about Y140, helping Japan's exporters. Although further devaluation could provide another much-needed boost – and help Japan adjust its still high asset prices – the US appears unlikely to tolerate this. In particular, Washington fears that further yen weakness would trigger a spiral of competitive devaluations across Asia.

Monetary policy also offers few easy solutions. Interest rates have been at record low levels of 0.5 per cent since the autumn of 1995. And although the real interest rate has risen in recent months because prices have fallen, further cuts would be difficult. Some officials at the Bank of Japan want to expand the money supply instead. But this would further weaken the yen and prompt complaints from Washington.

There is another policy option – fully-fledged deregulation to create a more flexible economy. But although this step would eventually boost productivity, it may actually hurt growth in the short run. The industry shake-out that has already taken place, for example, has now pushed unemployment up to a post-war record high. This is believed to be one factor fuelling consumer gloom and recession.

Further restructuring is likely to trigger a wave of bankruptcies – particularly if the government presses ahead with plans to implement a shake-out of the banking sector.

So where does this leave the Japanese government? Facing an unenviable choice. If it implements rapid restructuring, it could tip the country into severe recession. If it tries to stave off this restructuring, however, it will simply prolong Japan's productivity problem.

Solving this conundrum may yet prove possible – particularly if Japan is permitted to soften the pain through devaluation or inflation. But it will not be easy. Japan's economic outlook, in other words, could get worse before it gets better.

FOREIGN POLICY • by Peter Montagnon

Reluctant, cautious diplomacy

Japan relies heavily on multilateral forums to address its problems

Diplomacy has never come easily to Japan. An island nation, shut off from the outside world for many centuries and still unable fully to shake off the legacy of the second world war, it appears instinctively cautious about asserting its presence on the international stage.

Thus, even while its economy grew to become the second largest in the world and while Japan became the world's largest creditor nation, it never sought to acquire the international political influence commensurate with its wealth. While the US dominates the global diplomatic stage and Germany plays a pivotal role in the affairs of Europe, Japan never even became a diplomatic leader within the Asian region.

Now, with its economic prowess apparently on the wane and China basking in the attention it is receiving from the US, Japan's lack of leadership seems to be coming home to haunt it.

Right from the start of the Asian economic crisis, Japan has fluffed the opportunity to show leadership in resolving a difficulty in its own backyard. Ask Japanese officials what they have done in response to the crisis and they will point proudly to the amount of money – more than $40bn – which Japan has contributed.

With the possible exception of the personal influence brought to bear by Ryutaro Hashimoto, the prime minister, on President Suharto to sign up to a new International Monetary Fund agreement, they have few claims to policy solutions. That task, as before, has been left largely to the US. Only rarely, as recently with the imposition of sanctions against India and Pakistan after their nuclear tests, does Japan speak out on international affairs.

Modern Japan relies heavily on multilateral forums as a means of dealing with its problems. It is a pacifist nation, whose military is officially known as a self-defence force, and is reluctant even to take part in UN peace-keeping efforts, although this reserve also reduces its diplomatic influence.

But how much does this matter to Japan or the outside world? Up till now most of Japan's neighbours appear content that it chose not to flex its diplomatic muscles in the region or elsewhere. Japan's industrial investment has been regarded as useful, and its willingness to adopt the posture of unobtrusive house guest is appreciated. Many of its neighbours – notably South Korea and China who retain memories of Japanese colonial rule – remain suspicious of Japan and are happy to see it stay in its diplomatic shell.

Relations with the US are in good order: Ryutaro Hashimoto with Hillary Clinton when she visited Tokyo in April 1996 Picture: AP

The difficulty is that the relative rise of China seems to be altering the security balance of the region. By signalling last month that it might devalue its own currency if the yen remained weak, China succeeded in pressurising the US to put pressure on Tokyo to tackle its extensive banking and economic problems.

The result was an embarrassing display of dissatisfaction by Japan's international partners at a time when it was already unnerved by the attention Washington was lavishing on Beijing ahead of President Clinton's summit visit.

Relations with the US and with China are the two most important bilateral links for Japan, and the most urgent task of its diplomats at present is to get the balance right. That relationship with the US is in relatively good order since the conclusion of a strengthened security arrangement last year in which Japan agreed to support the US in dealing with regional security threats outside its own borders.

Some issues remain on the table such as lingering concerns about the local objections to US troop presence on the southern island of Okinawa and the US desire for Japan to participate in its theatre missile defence system. But the general mood is positive, and the buoyant US economy means that for once the US is not objecting to the large trade imbalance in Japan's favour.

Relations with China have also been improving after a period of coolness when China objected to the apparent inclusion of Taiwan in the geographical scope of the new US-Japan defence arrangements. Li Peng, the former Chinese prime minister, visited Japan last autumn and further visits are planned in the run up to President Jiang Zemin's visit later this year. Japan hopes the visit will set the seal on a new relationship with China for 21st century.

But the lingering desire of China to "keep Japan on the back foot" in bilateral relations, as one diplomat puts it, is making this rather hard.

Some in Japan were piqued that President Clinton, apparently at Beijing's behest, did not visit Tokyo on his way to or from China.

Beijing remains anxious about Taiwan with which Japan enjoys quite close unofficial relations, and has expressed concern over the Japanese film *Pride: the Fateful Moment* which celebrates Hideki Tojo, prime minister at the time of the attack on Pearl Harbour.

For Japan, the objective, is to override these kind of niggles and persuade China that it is not a question of forcing the US to choose between China and Japan as its main interlocutor in Asia.

Japanese officials stress that in their view the three-way relationship is not a zero sum game, although China evidently remains to be convinced. Nor, despite the marked rapprochement between the US and China, is Washington likely to abandon its treaty arrangement with Japan, which is the cornerstone of its security arrangements in the Pacific and widely seen (even by some in China who worry about Japan's latent nationalism) as essential to regional security.

The US may be closer to China, but there are still plenty of differences between them – over a wide range of subjects from trade and human rights to Tibet.

Even if China did want to squeeze out Japan, it would find it difficult. But that is only partial consolation for Japan at a time when its relative standing in Asia seems to be on the wane.

Japan would make a real contribution to regional security if it could manage to engage more positively with China, while maintaining its treaty arrangement with the US. But if it is to win China's respect, it must also acquire the confidence to wield influence in Asia without at the same time giving offence to its neighbours.

ھكذا من الأصل

هكذا من الاصل

INDUSTRY • by Philip Gawith

The picture is complicated

Despite some gloom, Japan's industry remains a world leader in many sectors

If a rising tide lifts all boats, presumably the dismal economic drought Japan has suffered would have left a fair few shipwrecks.

In the financial sector the signs have been obvious enough.

But what about industrial Japan, where symptoms of stress have been less conspicuous?

To western eyes, the conventional signs of economic distress – such as reams of bankruptcies or a raft of consolidation activity – are absent.

Look a little closer, though, and a more complicated picture emerges. Take share prices, for example. Household names such as Sony, Canon and Toyota may be close to their highest levels on record, but the majority of companies are faced with relentlessly falling share prices.

Across different industries, the picture that is emerging is of a clear differentiation between winners and losers.

A frequently cited example is the vehicle sector where the successes of Toyota and Honda have been matched by the miseries of Nissan and Mazda.

Mr Pelham Smithers, strategist at ING Barings in Tokyo, reckons there is a two-tier aspect to the issue.

For basic material producers, such as steel, the benefits of a very weak yen are insufficient to offset the impact of slowing growth in Asia. The health of companies making finished products, he says, is better.

Mr James Abegglen, a veteran consultant in Tokyo, reckons that a typically Japanese process of restructuring is under way:

"Rather than the company identity disappearing, it keeps its legal form but the substance of the company becomes captive of another company."

He cites the example of Isuzu becoming a captive supplier to Honda of recreational vehicles.

Some would argue that this benign assessment is too kind to Japanese industry.

Hiroshi Nakagawa, managing director of Intersec Research, notes: "In general, industry is not efficient. There are too many white-collared people. Each company has too many slack resources."

Figures from Goldman Sachs confirm the view that assets do not work very hard in Japan. Looking at the Nikkei 300 non-financial companies, they find that its return on equity is a paltry 4 per cent, compared to 20 per cent for US industrial stocks.

Using value-based analysis, the figures are arguably even more stark.

Whereas the spread between cost of capital and return on capital is at a record 4.5 per cent in the US, Japan has consistently destroyed value since 1990, not generating a positive spread one year in that time.

While 37 out of 45 sectors in the US generate positive economic value, only 16 out of 45 do so in Japan.

Undeniably these figures are an indictment of management, although they also reflect a demanding operating environment. But the way Japan works has also played a part.

Mr Arthur Alexander of the Japan Economic Institute in Washington DC advances the following view:

"The admirable qualities of discipline and patience undergirding a nation of savers and investors are less valuable to an economy when productivity improvements are the main source of growth."

A related point emerges from analysts at Nomura Research Institute in Tokyo.

While Japanese companies have often excelled at innovation and product development, they have been much poorer at sales and marketing – the customer interface. Moreover, there has sometimes been a tendency to pursue quality without attention to price. "Japanese companies forgot to listen to the market. They're also not so financially aware," said Mr Toshitada Nagumo, senior consultant.

But it would be wrong to be too gloomy about the outlook for Japanese industry. It remains a world leader in sectors such as consumer electronics, cars and semiconductors.

And a recent study by NRI found that the slowdown in the economy and changing public attitudes to deregulation "appear to be creating especially fast-moving and far-reaching changes in the business environment."

There is also a recognition at the highest levels that the winning ways of old will no longer suffice. The Ministry of Trade and Industry commented recently:

"The economic and social system of our country ... no longer works effectively ... government will promote a drastic reform in economic structure." Just how useful this sort of top-down initiative can be may be a moot point.

New industries require risk takers and a supportive venture capital culture. Arguably Japan is light on both counts.

But there are encouraging signs that some new industries are springing up to take on the growth baton. Healthcare, multimedia and agriculture are just three examples of where considerable change has been experienced.

NRI's researchers say changes to industrial structure are happening much more rapidly than they believed likely only four years ago.

In a country where shareholders had more say in the running of companies, the pace of change would be a lot quicker. But Mr Smithers notes that in Japan "The status of shareholder ranks slightly behind the person who serves the tea." But this does not mean reform will not occur.

Mr Smithers argues that in Japan it is the bondholders who control companies.

With interest rate payments on debt a significant variable cost of companies, credit ratings matter and his prediction is that the market will start increasingly to sort the sheep from the goats via credit quality.

Perhaps this will prompt the sort of restructuring hitherto limited mainly to the financial arena.

International alliances

Major linkages between Japanese and foreign financial institutions

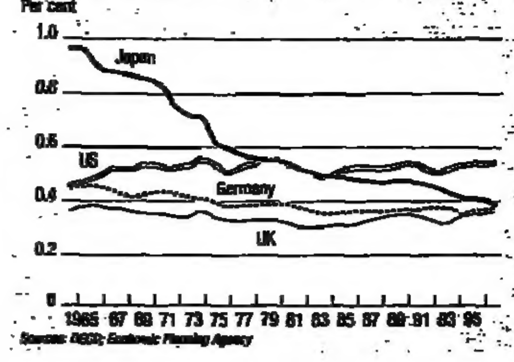
April 1997	Nippon Credit Bank and Bankers Trust New York Corp.	Cross-shareholding, cooperation in securitising assets in Japan
July 1997	Long-term Credit Bank of Japan and Swiss Bank Corp	Cross-shareholding, forming alliance on investment and banking asset management and private banking
	Nikko Securities Co. and Smith Barney International Inc.	Setting up joint venture for wrap accounts
December 1997	Merrill Lynch & Co and failed Yamaichi Securities Co.	Acquisition of branches hiring of personnel
February 1998	GE Capital Services Inc. and Toho Mutual Life Insurance Co	Setting up joint venture to sell insurance through Toho's branches
March 1998	Meiji Life Insurance Co. and Dresdner Bank	Setting up joint venture for asset-management services
June 1998	Nikko Securities Co. and Travelers Group Inc	Capital investment, comprehensive co-operation

Source: Nikkei weekly

Capital productivity

An international comparison

Per cent



Sources: OECD; Economic Planning Agency

Japan: composition of manufacturing

Yen '000 billion

	1995	1994
Total manufacturing	119.29	117.25
Food	13.53	13.67
Textiles	1.82	2.10
Pulp and paper	3.47	3.30
Chemicals	9.98	9.94
Oil and coal	5.82	5.47
Ceramics and cement	4.24	4.35
Primary metals	8.58	8.18
Metals	7.00	6.91
General machinery	14.11	13.31
Electrical machinery	18.73	18.86
Transportation equipment	12.92	11.85
Precision instruments	1.75	1.76
Others	18.59	18.84

FINANCE • by Philip Gawith

Landmark deals indicate the scale of change

Foreigners are flourishing in the newly deregulated environment since Big Bang

It is difficult to overstate the scale of ferment in Japan's financial system. Last November witnessed the high profile collapse of three financial institutions – Sanyo Securities, Yamaichi Securities and Hokkaido Takoshoku bank. Japan had never before seen the like of it.

In April, the gun was fired on the "Big Bang" liberalisation of Japan's financial system. This involves a radical shake-up of the status quo, with barriers between banks, insurers and securities companies being broken down. In the process, foreign access to the Japanese market is much improved.

Subsequently, there have been a raft of landmark deals which testify to the change under way. Most striking of all was the $1.6bn paid by the US group Travelers for a 25 per cent stake in Nikko, Japan's third-largest securities company. It was by far the largest such investment by a foreign firm.

Other important deals included GE Capital setting up an insurance joint venture with Toho Life, and Merrill Lynch buying up 30 branches, including staff, from Yamaichi.

Significant in a different way was the alliance between Nomura Securities and the Industrial Bank of Japan. Many observers saw the deal as indicative of new realism among Japanese institutions about what they could achieve on the world stage.

As Masashi Kaneko, Nikko's president, said at the time of the Travelers deal: "The problem we face is globalisation. Companies can no longer satisfy customers by themselves, without a global partnership."

Big Bang is nothing less than Japan's response to globalisation. But it is also closely related to the crisis which has befallen the country's banking industry. Akira Ariyoshi, director at the Securities Bureau in the Ministry of Finance comments: "Big Bang isn't really about closing down banks or financial institutions. It is about reforming financial intermediation to encourage more efficient allocation of resources."

Notoriously, Japan is too reliant on bank finance. Securities company Salomon Smith Barney estimates that 80 per cent of Japanese corporate funding comes in the form of bank loans, compared to less than 10 per cent in the US.

The hope is that Big Bang will allow development of a financial system less reliant on the banking sector. Allied aims are that Japanese investors and companies should have improved access to products and services, and that in the process Tokyo will become a financial centre to match Wall Street and the City of London.

Foreigners are flourishing in this newly deregulated environment. Leading brokerage firms have accounted for as much as 50 per cent of turnover on the Tokyo Stock exchange, while big inroads are being made in areas such as pension fund and investment trust management. Many foreign firms offer better products and service, and are more efficient, than their Japanese counterparts. Research by Dresdner Kleinwort Benson, for example, shows Merrill Lynch achieving a net revenue-equity ratio in 1996 nearly five times what Japan's top three brokers achieved.

But it is wrong to look at the market as a static, zero sum game. To the contrary, Big Bang is almost certain to ensure that Japan's capital markets and asset management industries enjoy vigorous growth in the years ahead. "Fidelity as a corporation views Japan as probably the growth opportunity of the next ten years," says John Gernon of Fidelity Investments in Japan.

Mr Koichi Kane, managing director of Kokusai Securities, notes: "I don't think everybody is going after a small prize. This is a huge growing market." Still, Big Bang certainly puts Japanese finance firms under pressure to focus on what they are good at. This process has only just begun, but will probably encourage considerable rationalisation of activity over time.

Not surprisingly, foreigners have achieved most success in penetrating the wholesale-institutional end of the market. But for many, getting their hands on the Y12,500bn of household assets is the real prize.

The retail market though, which requires a significant distribution capacity, is harder to crack. The most obvious way of doing this is through partnership with a Japanese institution. Given prevailing nervousness about the financial state of many of these companies, most joint ventures have been carefully ring-fenced from the existing business to avoid the risk of financial contamination.

Japanese investors have been keen to gain access to non-yen products. This is hardly surprising: equities have generally been a poor investment in the 1990s, bonds are believed to have reached a ceiling and property prices have collapsed.

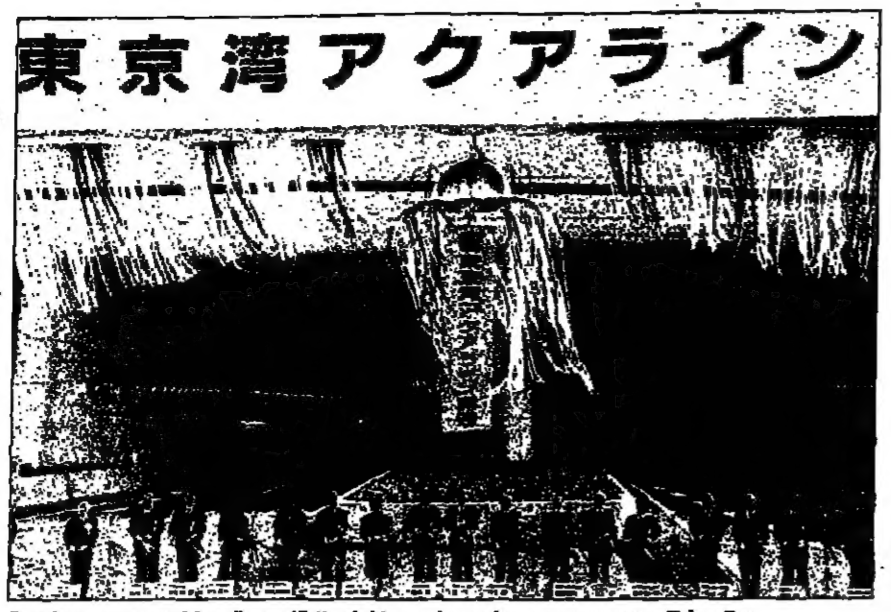
"People are really worrying about where to put their money," said Mr Kane. "That is why Japanese are buyers of foreign currency-denominated assets. But it is portfolio diversification rather than currency speculation. In the past it could be very difficult to internationalise."

So long as Japan's economy remains in the dumps, domestic investors are likely to continue exporting funds. But if the government succeeds in revitalising it, these could well be exceeded by underweight foreigners hastening back into the Japanese market.

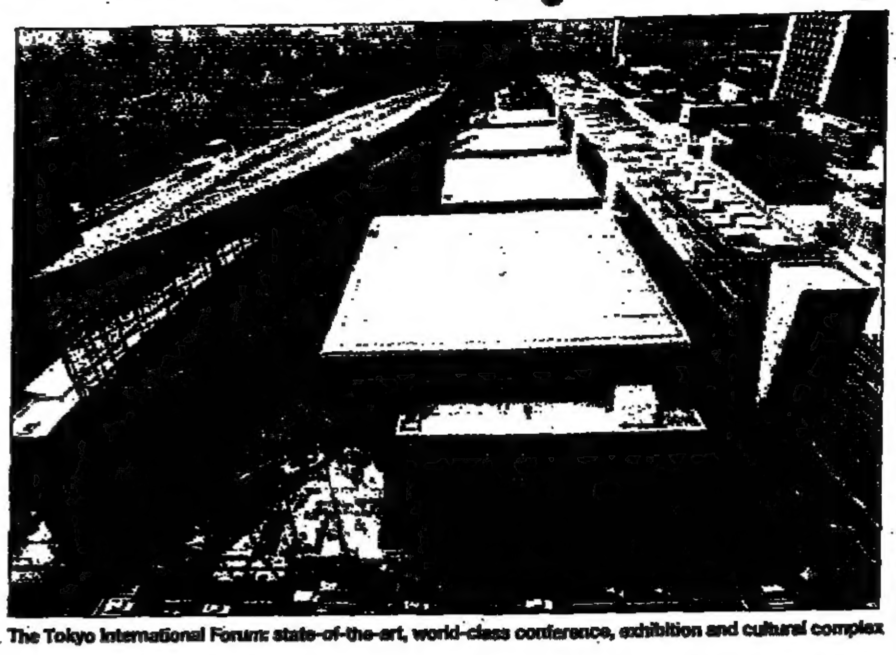
ARCHITECTURE • by Marie Myerscough

Innovative landmarks transform Tokyo's skyline

Ingenious design projects have resulted in a bold new image for Tokyo's cityscape



Opening ceremony of Aqualine, a 15.1km bridge and tunnel expressway across Tokyo Bay *Pictures: AP*


The Tokyo International Forum: state-of-the-art, world-class conference, exhibition and cultural complex

Business visitors to Tokyo who bemoan the drabness of Tokyo's skyline are advised to stay alert as they approach the metropolis on the long journey into the city centre from Narita airport. Some of the new high-tech architecture en route could dispel any prejudices.

Three massive buildings, in particular, now dominate the city's concrete jungle outskirts: a space-age construction of four inverted pyramids on columns (The "Big Sight" Exhibition Centre); the smoked glass Telecom Centre with its gigantic satellite dish (actually, twin towers joined by upper and lower bridges; and a futuristic, 35-storey high, Meccano-like structure, topped with a reflective globe (Fuji TV).

These towering landmarks stand on a large 450ha artificial island in Tokyo Bay built initially for a new city and World Expo, and cancelled when Japan's economic bubble burst.

The reprieved city plan is now well under way. Along with commercial and residential projects, the completed areas include a beach resort, outdoor restaurants and glitzy shopping malls. The resulting amicable environment is upgrading Tokyo's quality of life, with decent living space and leisure facilities now just a few miles from the city centre.

Linking the island and Tokyo proper is the equally new, and spectacular, Brooklyn-like Rainbow Bridge. More land reclamation and high-rise construction on the "mainland" are producing a Manhattan-style peninsula with businesses, including foreign companies, already installed.

Along with the functional blocks sprouting up over much of a still mainly low-rise city, the number of imaginative designs by leading architects is increasing. Sophisticated corporate headquarters, convention centres, commercial buildings and new world-class museums are transforming the cityscape.

The skyscrapers of Shinjuku have been augmented by the even taller Tokyo City Government offices and Park Tower, a 52-storey commercial building topped by a five-star hotel – both designed by Kenzo Tange, the doyen of Japanese architects. The newest, the Tokyo Opera City Tower with 60 floors, maintains the area's Los Angeles character.

Not far away, another high-rise complex with full amenities – and prestigious offices – Ebisu Garden City, has revitalised an area hitherto known for the brewery that formerly graced the site.

But the newly-opened Tokyo International Forum is generating most architectural excitement. This spectacular building by Tokyo station, is a state-of-the-art, world-class conference, exhibition and cultural complex designed around a landscaped piazza.

Its high-tech auditoria have already accommodated full houses for events as varied as Jose Carreras, the Leipzig Gewandhaus Orchestra – and Lady Thatcher. Designed by American Raphael Vinoly, it is regarded, at home and abroad, as Tokyo's most important new architectural project this century.

Occupying a three-hectare prime site between the Imperial Palace moat, the Marunouchi business district and the Ginza, the forum's enormous, boat-shaped, 11-storey "conservatory" is linked to the stunning main building by an outdoor plaza and inner bridges.

This glass hall is deliberately curved to empathise with the mass of railway tracks (including those for the Bullet Train) that run alongside.

The soaring 3,000-pane, earthquake-proof glass atrium will draw visitors first. Sixty metres high, and 207m long, with a roof that resembles the underside of a boat, it represents a feat of engineering. In the true spirit of the forum, everything is designed for the public's use – including an elevated walkway for *aficionados* to admire the design at close range.

All this new architecture is enhancing Tokyo's suburban environment. Most of the high-rise buildings can be enjoyed by the public, with restaurants and bars on the top floors offering superb views, day and night. Associated landscaping has brought some much-needed greenery into the metropolis.

Away from the grandeur of Tokyo's central business and commercial districts, the city's small-scale architecture equally exemplifies innovative design. In the middle of the urban hodgepodge (there are few irksome town-planning restrictions in Tokyo), an amazing variety of imaginative, often provocative, small buildings dots the city. What westerners are likely to dismiss as the obliteration of an exclusive house or boutique by its ugly environment, the Japanese perceive differently.

Japan's specially-commissioned medium and small-scale buildings are intentionally at odds with their surroundings; a form of self-advertising and a boost to the neighbourhood, they believe.

This concept makes Tokyo an architectural showcase. Examples abound – a small pyramid-topped police box in the Ginza; a colourful, candy-striped advertising company's headquarters in Shinjuku; a draped mini-Gaudi entertainment complex in Shibuya; a stone wall and concrete cast house-office in Akasaka.

For sheer bravura elsewhere, the top contenders include: a metallic barrage-balloon-like ornamental gate, poetically named "Egg of Winds"; a butterfly wing-shaped glass atrium providing daylight for a basement building; and an igloo-style house.

Japan's propensity for ultra-modern architecture which took off in the mid-1980s has just started to pick up again. Many of the older generation of architects such as Kenzo Tange, Kisho Kurokawa, Arata Isozaki, Tadao Ando, Fumihiko Maki are known internationally. Distinctive Japanese characteristics have given them – and the younger generation who enjoy more commissions than would be possible in the west – terrific artistic freedom.

Ingenious designs are frequently necessary to overcome the acute land shortage, high inheritance tax resulting in sub-divisions into ever-decreasing lots and irregular shapes. Tokyo's earthquakes dictate that the main restrictions are structural.

One architect has found his own creative way round the earthquake problem by employing weaker materials which need not affect the strength of the building. "You just need more of them," says Shigeru Ban. The technique, which he has been developing for 10 years, involves cardboard tubes made from recycled paper and coated to seal them against the elements. The size of normal columns, they are all tested rigorously for strength and durability, and easily take the weight of a building.

He has used this new building concept in housing, a church for refugees after the Kobe earthquake, and also a more chic application; the Design Gallery of Issey Miyake. A line of Greek-style, paper tube columns running along the front glass and aluminium wall not only bears the load but, accentuated by Tokyo's brilliant sunshine, give an interesting visual effect.

The tubes joined together form a gently curved back wall, their neutral tones a perfect backdrop for the colourful Issey Miyake fashions. Paper table and chairs complete the ultra-modern design. Shigeru Ban's use of cardboard represents not only the ultimate in modern, environmentally-friendly design but belongs firmly in the paper and wood tradition of Japanese architecture.

THE RETAIL SECTOR • by Alexandra Harney

Widespread collapse in sales

The response has been to freeze recruitment and close unprofitable overseas outlets

A stroll through the carpeted aisles of Takashimaya, a plush department store in downtown Tokyo, illustrates the pressures faced by Japan's retail sector. The speciality boutiques – including Gucci, Fendi, Prada and Ferragamo – are nearly empty except for a few well-heeled customers.

"It is hard to believe they are still in business," said one recent American visitor.

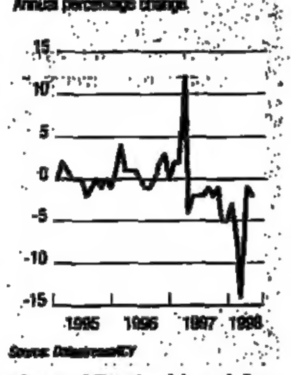
The credit crunch and the recession are squeezing the Japanese retail industry. Retail sales have fallen every consecutive month except one since April 1997 as consumer confidence has plunged after a consumption tax increase went into effect that month.

Last month, retail sales were down 2 per cent year-on-year, according to the Ministry of International Trade and Industry (Miti). Department store sales last month were down 0.4 per cent year-on-year. The drop was particularly worrying because of the depression in sales the previous summer, as buyers cut back after the tax increase.

This has led to a drastic reduction in earnings across the industry, and put pressure on retailers to improve profitability by raising the return on assets and investments. The industry's response to falling profits has been to freeze recruitment and close unprofitable overseas outlets.

Many retailers, responding to the collapse in sales, have started shedding unprofitable assets and closing stores. Daimaru, one of the biggest retail chains, is to close its stores in Hong Kong and Paris in July, following closures in Lyons, France, Thailand and Bangkok. Takashimaya will close its London store this month, and Matsuzakaya, Mitsukoshi and Isetan have either closed or intend to close their outlets in Hong Kong, where flagging consumer demand has sent department store sales plummeting.

Retail sales
Annual percentage change



Daiei, the largest retailer, has stayed in the black by selling assets. Last year, the company sold its equity stake in Lawson Japan, the convenience store chain, and cut its dividend by Y3 to Y13.

At the same time, the credit crunch at Japanese banks has made new financing nearly impossible for most retailers. While banks are likely to prop up the biggest department stores because of the cultural importance of their image – most Japanese would find it hard to imagine the loss of one of the swish multi-level palaces – the tough financial conditions could claim a few mid-size regional supermarkets, analysts warn.

"I think one or two of the local chains will go in the next few years," says Masahiro Matsuoka, retail analyst at Morgan Stanley Dean Witter.

But some companies, especially those that borrowed heavily through the bubble economy of the late 1980s and early 1990s, are not in a position to make new investments. The competition is already very hot among Japan's biggest department stores and supermarket chains, and most companies have little extra cash to spend on new projects.

Among the healthiest retailers are supermarket chains Ito Yokado, Jusco, and Uny. Ito Yokado, which owns Seven Eleven Japan, the successful convenience store franchise, saw only a 5.2 per cent drop in net earnings on a consolidated basis last year, compared with a 68 per cent decline at competitor Jusco. Analysts agree that Ito Yokado's cashflow situation puts it in a better position to survive the slide in consumer demand.

Meanwhile, foreign shopping mall operators are lining up to enter the Japanese market thanks to recent deregulatory reforms. One such company, American Malls International (AMI), aims to open an outlet by this autumn in Kanagawa, a Tokyo suburb.

The US retailer has met continual resistance from the Japanese government, which claims that the malls would violate laws to protect farmland, since it first applied to open a store in 1992.

If AMI is successful in its attempt, it would become the first foreign retailer to challenge the local competition. Other companies, including Mills, the US developer, and the real estate groups World Premier Investments and Trammell Crow, have attempted to build shopping complexes.

Foreign retailers are nothing new to the industry – companies such as the Gap, Toys R Us, Eddie Bauer, Tower Records, and J. Crew have expanding their distribution networks since the late 1980s – but the onslaught of US-style shopping centres would change the retail landscape considerably, analysts say.

"I think they have a process and a technology that could really shake up the retail industry," says Mike Allen, retail analyst at ING Barings.

The shift towards shopping malls reflects the effect of recent deregulation of the industry. In May, the parliament passed a revised version of the Large-Scale Retail Store Law, which has regulated the number, location, operating hours, and size of retail outlets since the 1930s.

Analysts say the change was superficial, made only to appease US trade negotiators, who argued that Japan's regulations protect small "mom and pop" stores and keep foreign competitors out. The US even went so far as to file a complaint with the World Trade Organisation (WTO) about entry into the retail market.

The new law, expected to come into effect in April 2000, has extended operating hours, halved the number of mandatory holidays that retailers must take, and shortened the application procedure for opening a new store.

However, the new legislation is unlikely to lighten the regulatory burden on retailers, analysts warn. Retailers could face additional noise and pollution restrictions, as well as stiff local political opposition. This could mean fewer new store openings, discouraging innovation and price competition.


Almost empty except for the well-heeled: the Takashimaya department store in downtown Tokyo *AP*

"On the surface, things have changed. Japan can say to the US that deregulation has occurred. In reality, nothing has changed, and in fact the regulations have actually become more strict," says Masahiro Matsuoka, industry analyst at Morgan Stanley Dean Witter.

Toshiko Binder, retail analyst at HSBC James Capel in Tokyo, says: "The overall outlook looks like the shifting from Miti [Ministry of International Trade and Industry] to local governments means a change to an environmental focus.

"These are things they cannot defend themselves against. It could get a little more sticky."

More than foreign competition or deregulation, the industry's financial difficulties are likely to continue to dent earnings – and even push a few mid-size chains into bankruptcy – in the next several years, analysts say.

Financial restructuring – not deregulation – may be the Japanese retail industry's only hope to weather the decline in demand in Japan, analysts say. High debt levels leave little extra cash for new investment, and with wholesale prices falling and retailers discounting merchandise in an effort to raise sales volumes, gross margins are shrinking.

"Deregulation will improve the health of the sector. But competition will become more intense, and the financial environment will tighten," says Mr Matsuoka of Morgan Stanley Dean Witter.

But department stores in particular, with their emphasis on customer service, confront the dilemma of high personnel costs and insufficient cash reserves to fund costly accelerated retirement plans. The recent changes are likely to speed up a shake-out in the retail industry, as companies move to cut costs and remodel their balance sheets.

هكذا من الاصل

PENSIONS • by Philip Gawith

Rapidly ageing population represents a problem

The next step is to move from a defined benefit system to defined contributions

If you're looking for a long life, Japan is the place. In 1996, average life expectancy was 83.59 years for women and 77.01 for men, the highest in the world. But that is not the only noteworthy demographic statistic: in 1997, the average number of children a Japanese woman bears during her life reached a record low of 1.39.

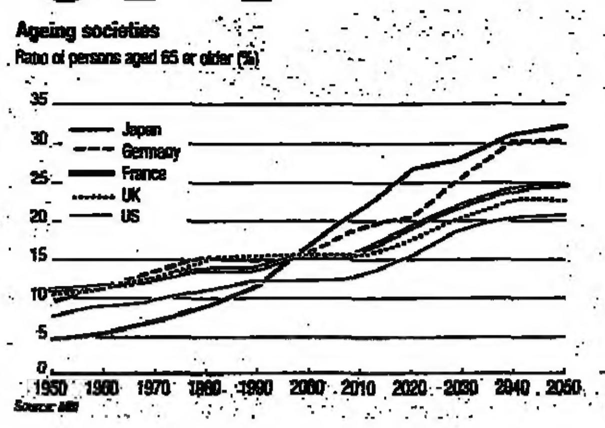
The upshot? The most rapidly ageing population of any leading industrial country. Even at the best of times, this would present a problem: how does a shrinking pool of workers fund the social security obligations, including pensions, of an increasingly large body of old folk? The Welfare Ministry calculates that social security costs will rise fourfold over the next 30 years – from Y65,000bn to Y274,000bn.

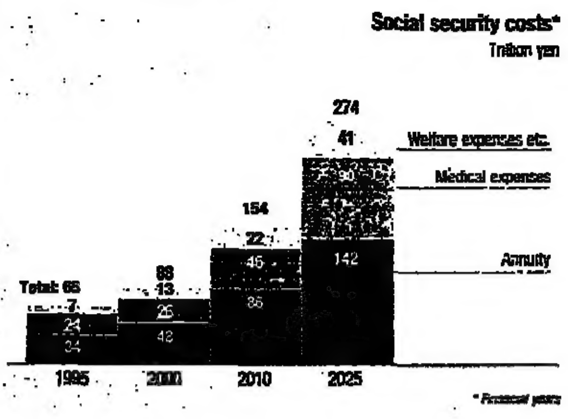
But the 1990s have manifestly not been the best of times in Japan. Just as the pension liability of the government and companies has been growing, so investment performance has been deteriorating. Equity values have plunged for all but the bluest of *blue chip* companies, while yields on bonds and cash have sunk to miniscule levels.

Until recently, most Japanese pension schemes assumed an annual return of 5½ per cent. Life assurance companies have now cut that to 2¾ per cent. But the reality of investment returns for many years running 1½-2 per cent shy of 5½ per cent is a very large funding gap.

Noriyuki Morimoto, director of pension consultants Watson Wyatt, reckons that assuming a future discount rate of 3 per cent, corporate Japan has a 40 per cent underfunded pension liability on its balance sheet. Ministry of Welfare figures put Japan's unfunded pension liabilities at Y419bn – not far short of the annual gross domestic product.

How can the gap be closed? Government can raise taxes, or companies can increase contribution levels. But very few have the cash-flow to assume this burden. The Organisation for Economic Co-operation and Development calculates that without reform pension schemes will require contributions equivalent to about 30 per cent of employees' income – a doubling of current levels – by 2025, in order to stay afloat.





Mr Yoshio Nakamura, managing director of Keidanren, the business pressure group, comments: "We cannot bear such a high premium. That kills our competitiveness; our viability."

With the introduction of international accounting standards for pension liabilities in fiscal year 2000-2001, this problem will be fully revealed. There is still some dispute over whether these liabilities should be amortised over five or 15 years. If it was five years, the impact on corporate earnings could be quite significant.

Mr Morimoto notes: "It is a very serious issue as our industry may lose competitiveness simply because of the huge burden of corporate pension plans."

For companies, there are two possible responses to the pensions challenge. For new employees, they can make the pension scheme less generous, thus curbing the rate of growth of liabilities. This is already happening. As for closing the existing gap, improved performance is the obvious solution – but falling markets have not helped. However, pension fund managers were long hampered by the 5-3-3-2 rule – scrapped in 1996 – which depressed returns by requiring a low risk profile for investments.

Traditionally, only life and trust companies could manage pension assets. This was a further constraint on performance. But deregulation this decade has allowed more specialist money managers (investment advisers) with superior investment track records to get a slice of the business. Well-known foreign names such as Fidelity and Schroders feature prominently among these.

While these companies are often hired for their international expertise, they are also winning some Japanese equity mandates. The amount of money managed by investment advisers rose by 42 per cent in 1997 to Y15,285bn, while the share of foreign investment advisers rose to 26 per cent from 12 per cent three years ago.

Foreign managers have only 2-3 per cent of existing funds under management, but are reckoned last year to have won a third of the new business. Most large companies now have foreigners managing at least a portion of their pension assets. But it is not simply a question of performance. Following the bankruptcy last year of Nissan Life, trustees and sponsors are keen to put their assets in strong hands. Stability is as much an issue as performance.

Clearly a more benign investment environment will help Japan partially address its underfunding problem.

But the next step of the debate is to move, as countries such as the US and UK have done, from a defined benefit style system towards a defined contribution system. The Ministry of Finance is still resisting the idea of a tax incentive – something practitioners believe is essential if people are to assume the greater responsibility which defined contribution requires. But the governing Liberal Democratic party clearly has it in mind to implement reforms.

One of the key issues here will be structuring the model most appropriate for Japan. In the US the "401k" type model provides the employee with unlimited choice of investment vehicle and full responsibility. In the UK, by contrast, there is less choice and the company is still involved in helping with asset allocation.

Mr David Gibson of Schroders in Japan believes the UK model will probably prove more appropriate, given most Japanese investors are less experienced than their US counterparts.

How these issues will be resolved remains unclear. But they will need to be if Japan's workers are to look forward to retirement with some degree of security.

UNEMPLOYMENT • by Fiona Graham

Traditional employment structures are fragmenting

The core of 'life-time' workers is being cut while more temporary staff are hired

This summer one startling forecast hangs over Japan: in the coming months, its official unemployment rate could soon overtake that of the US, some pundits are predicting.

Such a prediction might have seemed almost impossible just a few years ago. For in recent decades Japan has prided itself on having a jobless level that was among the lowest in the industrialised world.

But as the economy stagnates, and deregulation gathers pace, the traditional employment structures are fragmenting. The consequence has been an unemployment situation that HSBC Securities dubs "uniformly awful" – at least for Japan.

Unemployment hit a record 4.1 per cent in April – or 2.9m – and is expected keep rising.

The ratio of job offers to job applicants dropped to 0.55 in April, the worst monthly figures since 1978. According to the Ministry of Labour, this translates to just 55 jobs for every 100 seekers.

Meanwhile, wages also fell another 0.5 per cent year-on-year in April.

Consequently, as companies and workers strive to cope with the changes, the question is whether the Japanese government can now produce policies to contain the rise – and whether Japanese society can withstand the strain.

The problem is a pernicious one because during the past five decades Japan has prided itself on its "life-time" system of employment. This guaranteed annual salary increases for a core, mainly male, workforce in return for life-long loyalty to the company.

But increasingly, the core of life-timers is being cut down – which has reduced the total number of employees. It has also led to an increase in the number of temporary workers as companies try to fill their staffing needs with cheaper, low-maintenance alternatives to life-time workers. Meanwhile, older workers are being encouraged to volunteer for early retirement or accept severance packages.

These trends have ominous implications for the Japanese economy. It has only slowly dawned on companies and workers alike, that the dire employment situation is not a short-term effect of economic stagnation. Mika Tabata of Staff Service, a temporary staffing agency, says that companies cut back on hiring new life-time employees drastically in the early 1990s, when the economic downturn first arrived, expecting a quick economic recovery.

When the expected recovery did not take place, companies filled in the staffing gaps with temporary workers rather than new recruits, discovering the advantages of the instant productivity and lower personnel costs of temporary workers.

This trend has led to a startling rise in Japan's temporary staffing industry. But it has also meant that unemployment is particularly high among the youngest and the oldest, who tend to have least security. In the 15-24 age groups, for example, it reached 8.5 per cent in April, while in the 55-64 group it was 5.4 per cent.

The worst-hit sector is construction, because of cutbacks in housing and a reduction in public works, says Tetsuro Sugiura of Fuji Bank Research Institute, who expects 500,000 workers to be laid off within the year. Second is banking, where a wave of restructuring is expected in coming years.

However, increasing technology in the workplace is also changing radically the type of skills required by workers in other sectors. Companies need specialists, especially computer-literate workers that can run the technology in offices. They are increasingly willing to boycott the life-time employment system to get the staff they need, often from the temporary agencies.

These changes do not necessarily spell the death of the traditional employment system. Indeed, their impact may be a rather subtle one. For life-time employment has never actually quite matched up to the myth. Female workers and temporary workers have tended to form a buffer for the elite, largely male, workforce in Japan's companies in previous years. And Japanese industry has always had a dual structure: large companies where work is stable, highly paid and prestigious; and a secondary tier of smaller companies without these stable and prestigious working conditions.

The new downturn does appear to be fuelling the sense of a "two-tier" system. What appears to be emerging is a pattern where an elite core of privileged workers is supported by a growing mass of temporary workers who do not have high wages, security and unions.

Muneaki Ueda of Pasona, the most successful of new Japanese recruiting companies, says that keeping a core of life-time employees is not necessarily a bad thing. "At the moment, Japan doesn't really know what to do," he said, "So there is a lot of talk again of copying America. But the system of having the "core" group of workers and then a number of temps is working for Japan."

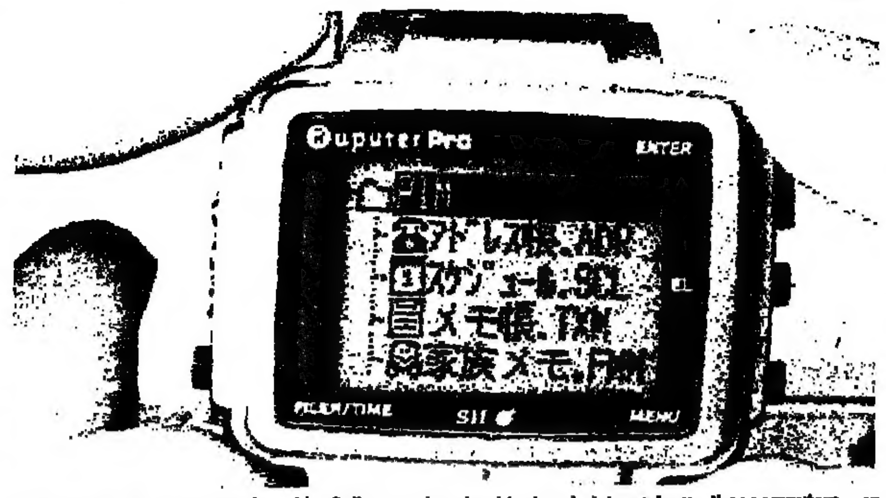
However, others suspect that the two-tier system is especially ominous given the downward trend in part-time wages which the Ministry of Labour describes as "considerably lower than the wages of regular workers with the gap widening."

Whether life-time employment is a myth or not, it underpinned the aspirations of the vast majority of Japan's hard-working workforce during the post-war years. But growing differences in wages may fuel a new sense of disillusion and social discontent. "Workers feel scared," says Mr Sugiura. "Japan will become accustomed to unemployment. We have to cope... but it will take some time."

CONSUMER ELECTRONICS • by Alexandra Harney in Tokyo

Slump sets sector reeling

Profits are down across the sector and companies are jockeying for position


A wristwatch computer developed by Seiko can download text and pictures from other computers AP

The personal stereo department at Big Camera, a discount electronics store in Tokyo, bustles with activity. Teenage boys finger personal stereos the size of cigarette packs, palm-size mini compact disc players and space-age remote control headphones. Clerks bob in between the customers, answering questions and handing out pamphlets on new merchandise.

A customer's question – How does a Sony Walkman differs from one made by Panasonic? – stumps the clerk and reveals the challenges in innovation facing Japanese electronics makers. The technology in each of the portable stereos, priced between Y6,000 and Y250,000, is almost identical.

The Japanese electronics industry is reeling from the effects of the Asian financial crisis and Japan's domestic slump. Profits were down across the sector last year, and companies are jockeying for position in the rapidly expanding digital consumer electronics market.

Worse, there are growing signs that Japanese companies, with their traditional emphasis on steadily building market share, may have trouble competing against giants of innovation such as Microsoft and Intel in the fast-paced electronics, multimedia, and computer industries.

Japanese electronics manufacturers are clambering to team up with software companies to target the lucrative digital consumer electronics market.

Sony, the industry leader, recently agreed a deal with Microsoft, the US software giant, to jointly develop technology for home electronics and personal computers. The company already has tie-ups with Intel, the semiconductor maker, and several Japanese electronics manufacturers.

Toshiba recently entered into a tie-up with the Walsin Lihwa Group, the Taiwan electronics company, to build dynamic random access memory (D-Ram). Fujitsu, Sharp, and Mitsubishi also have similar link-ups.

But in their effort to join the multimedia and computer markets, Japanese companies are only making new applications for existing technology rather than generating new ideas, industry analysts say.

"Japanese manufacturers were never very good at inventions," says Kimihide Takano, electronics analyst at Dresdner Kleinwort Benson in Tokyo. "With the Walkman, they just made something big smaller. They didn't make anything new."

Mr Takano argues that the Walkman, the mini-disc player, and the digital camera are all examples of Japanese improvement on existing technology. The problem is that Japanese companies focus too much on building market share, and not enough on raising competitiveness by inventing, and patenting, new technology.

However, some new products in the information technology and telecommunications sectors suggest that there is no reason to count Japan out yet. Japanese companies are leading the world in cellular technology, some analysts say.

Nippon Telephone and Telegraph (NTT), Japan's biggest telephone company, is currently testing a wristwatch phone equipped with a television screen. The phones, linked to a regional network, allow users to communicate with local doctors, shops, schools and government offices. Trials of a similar phone at the Olympics Winter Games in Nagano earlier this year proved highly successful, analysts said.

Kenwood, the electronics manufacturer, has also made the first cellular phone that transmits sound and images using an amateur radio kit. The company said it planned to launch its visual transmitter in Japan and the US, although it did not specify the timing of the release.

Kyocera, the semiconductor group, claims to have created the world's lightest mobile telephone. Weighing in at 69g, the phone is distributed through Ido, the Japanese cellular carrier, and will be launched in Japan this month, the company said.

"The one area that Japan does stand out in, against the rest of the world, is mobile telephone handsets," said Andrew Haskins, electronics analyst at HSBC James Capel in Tokyo.

On a smaller scale, Japanese companies are still producing unique – and often bizarre – electronic gadgets. Building on the success of Tamagotchi, the hand-held electronic pet made by Bandai, the toy company, one Japanese electronics maker created a palm-size device to match up women and men. Lovegety, made by Erflog, sold more than 450,000 units in the first three months of production.

How do Japanese companies come up with the ideas for such unusual gadgets? Toby Rhodes, analyst at Dresdner Kleinwort Benson, says: "In Japan you have more of your time stolen due to public transportation than any country in the world, so you need to find ways to amuse yourself."

Smaller companies such as Bandai and Erflog may be the key to innovation in Japan's electronics industry. As the number of venture businesses increases, Japan may be able to maintain an edge in developing new devices. Meanwhile, products such as Casio Computer's G-Shock watch, which gained international popularity last year, continue to support profitability.

However, analysts believe that as the integration of consumer electronics and computer industries accelerates, Japanese manufacturers may have a hard time keeping up.

Mr Haskins says: "In the consumer electronics business, it is a bit difficult to imagine the next blockbuster. There are various companies with a lot of potential. But there is nothing that is going to become the next Walkman or video cassette recorder."

YAKUZA AND SOKAIYA • by Fiona Graham in Tokyo

Crime gangs feel the pinch

The balance of power between the yakuza, big business and the police is shifting


Ryuichi Koike, a key sokaiya, and a guard at the Tokyo Detention House. Koike pleaded guilty to receiving pay-offs totalling Y12.4bn

After nightfall in Tokyo's Ginza entertainment district, gangsters start to gather for the evening's work. Dressed in expensive and well-cut suits – black shirts with bright yellow suits are popular – they step out of their Mercedes-Benzes and Porsches which are whisked away by junior gang members who stand rigid with attention as their seniors alight.

These are the fabled Japanese yakuza, members of traditional crime syndicates who presently number 80,000 according to National Police Agency estimates, and have been a force behind the scenes in the Japanese social fabric for at least 400 years.

But as Japan proceeds with deregulation, their role is coming under new scrutiny – and subtle pressure to change. For there are already hints that the balance of power between the yakuza, big business and the police is shifting. This in turn is weakening some of the traditional loyalties which were central to the so-called "Japan inc" style of doing business.

One sign of this has been a sudden increase in the number of scandals over the past year involving the sokaiya racketeers, who have been loosely connected with mainstream yakuza and who have specialised in extorting money from companies.

The racketeers obtain the right to attend the annual shareholders' meetings of companies by buying a small number of shares, and then extort money from management by threatening to ask embarrassing questions at the meeting. Sokaiya have also forced managements to subscribe to monthly "research reports," or to sign periodic "consultancy" agreements published by sokaiya groups.

These practices have been endemic in the corporate sector for years – and often suited both sides well. Large Japanese companies, for example, have been willing to pay up in most cases, often because the sokaiya's presence at the meeting actually acted in the best interests of the management itself, by ensuring that there were no embarrassing questions about management from other shareholders.

Meanwhile, the police have traditionally turned a blind eye to the sokaiya – not least because they themselves have often relied on the yakuza in previous decades to keep peace on the streets in an informal way.

However, Big Bang financial deregulation is now forcing the government to make at least a token sign of change. Last year, police arrested Ryuichi Koike, a key sokaiya, who pleaded guilty in December to receiving pay-offs totalling Y12.4bn from Japan's "Big Four" securities firms and Dai-Ichi Kangyo Bank. These scandals have triggered a welter of public commitments from companies that they will cut their sokaiya ties – and statements of outrage from the politicians.

Many Japanese observers suspect this has been simply a ritual display and few expect to see meaningful reforms overnight. A recent report of the Denki Rengo Research and Information Centre, for example, says that in a survey of 4,400 board members, auditors, and personnel of listed companies, some 60 per cent of respondents said that it was unlikely that companies would be able to cut their ties with sokaiya even in 10 years. The research centre argued that this was because the respondents felt that such ties were too much a part of traditional Japanese culture to be easily severed.

But change is taking place, however slow. The police appear to be cracking down more vigorously on the sokaiya. The National Police Agency insists that there are only some 200 "active" sokaiya now, compared to more than 1,000 a decade ago. And many yakuza themselves vigorously claim that revenues from sokaiya work is falling.

Take Mr "Nishi", a member of the Sumiyoshi-kai which, with 6,800 members is by police estimates the third-largest crime syndicate in Japan and the largest in Tokyo. His group – like many yakuza – has traditionally carried out sokaiya operations. But he says his faction's revenue from sokaiya has now largely dried up because of the recent police crackdown.

Such change is having some unexpected consequences. To cope with the loss of sokaiya revenues, many yakuza groups are turning to new sources of revenue, such as real estate.

The yakuza have always been well-known for the role they play in "helping", for a fee, property developers to force people out of their homes in order to free the land for redevelopment of large-scale buildings. But now they are beginning to buy real estate on their own accounts and to deal directly with banks.

Mr Nishi estimates that although the core of his faction's income comes from forced collection of loans, and gambling, the share represented by profits from dealing with bad loans from Japan's troubled banking sector have now grown to almost 70 per cent. "The banks are just interested in getting their names off the loan so they sell it to us cheap," says Nishi. "We then seize the real estate and sell it on immediately."

Just how much of the property market the yakuza controls is unclear. But the development could potentially complicate efforts to clean up Japan's bad loan mess: although a host of western companies are now sniffing investment opportunities in the real estate world, some are deterred by the yakuza involvement.

Such diversification may be only the start. The yakuza system has traditionally operated with all members making monthly payments to the boss and the elite advisers at the top. But in the present recession it is getting harder for the junior members to make enough to keep up their payments. There are suggestions that some are turning to theft, previously shunned by yakuza.

Optimists might argue that the diversification suggests the yakuza's traditional role in Japanese society could eventually dwindle. And pessimists might reply that it shows the yakuza's influence is becoming more pernicious – and moving them into more violent areas of crime.

Sakata, another member of the Sumiyoshi-kai, says that after 400 years of existence, the groups still have an infinite capacity to adapt in the face of adversity.

"We have to keep our illegal activities out of the limelight," he says. "We burrow more deeply."

هكذا من الأصل